



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THESIS

THE CAUSE AND EFFECT OF BUSINESS DEPRESSIONS

by

LEONARD SPANGENBERG

(B. B. A. Boston University 1928)

submitted in partial fulfilment of
the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

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THE CAUSE AND EFFECT OF BUSINESS DEPRESSIONS

The causes of business depressions are engaging the thought of men today more than at any other time during our generation. Depressions appear to be one of the by-products of our system of government, of our business methods, and of our unbalanced civilization. A remedy for devastating depressions is being searched for with as much diligence as Ponce de Leon's exploration for the "Fountain of Youth".

Periods of depression are testing times for business and financial institutions, for governments and their citizens, and even for our rigid laws. Every depression seems to have certain fundamental elements, such as: over production, over expansion, speculation, unsound financial practices, all of which tend to aggravate the seriousness of the situation.

Our government was organized in 1789, and because of the resulting added incentive to business, we did not experience our first depression until the year 1819. This panic, as it is usually called by historians, was of minor significance in comparison with other depressions which were to follow. It was due for the most part to the abnormal growth of industries as a result of the restrictions placed by our government on imports from European countries, directly following the American Revolution and also the War of 1812.

This depression could be termed primarily a financial orgy. Bad banking, speculation, and the people's general ignorance of the principles of finance brought their in-

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Periods of depression are recurring times for business and financial institutions, for governments and their citizens, and even for our rigid laws. Every depression seems to have certain fundamental elements, such as: over production, over expansion, speculation, unbalanced financial practices, all of which tend to aggravate the seriousness of the situation.

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This depression could be termed primarily a financial crisis. Bad banking, speculation, and the people's general ignorance of the principles of finance brought their in-

evitable toll of unemployment, falling prices, and reduced manufacturers.

At this point, it might be well to define what is meant by a depression. Depression is defined in a business sense as ¹"a state of dulness, or inactivity; a protracted season when business falls below the normal". This definition covers depressions in general; a more limited definition of a business or industrial depression would be: ²"a state of dulness or inactivity in the industries of the country; a protracted season during which the production of buildings, furniture, goods, machinery, railroads, ships, automobiles, etc., falls below the normal".

³"A panic or crisis is usually short, sharp, and decisive in its results. A depression is a condition which has duration of time attending it."

Another very important distinction should be made between depression and poverty. ⁴"It should be distinctly noticed that depression is not the same as poverty, although the two may appear contemporaneously. Just as depression describes a condition of greater duration than a crisis, so poverty applies to a condition more prolonged than a depression, and one which is essentially permanent. Depression runs its course and disappears. Poverty remains. The study of

1. Standard Dictionary.
2. Hull, Geo. H., INDUSTRIAL DEPRESSIONS, 1911, P.19.
3. Wright, Carroll D., REPORT ON MODERN INDUSTRIAL DEPRESSIONS, 1886, P.15.
4. Burton, Theodore E., CRISES AND DEPRESSIONS, 1926, P.12.

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1. Standard Dictionary.

2. Hall, Geo. H., INDUSTRIAL DEPRESSIONS, 1911, p. 19.

3. Wright, Garrall B., REPORT ON MODERN INDUSTRIAL DEPRESSIONS,

1886, p. 15.

4. Burton, Theodore E., CRISIS AND DEPRESSIONS, 1902, p. 12.

periods of depression reveals the fact that there are alternate seasons of activity and dulness in trade and industry, but that these alternate seasons do not, in a series of years, prevent an increase of prosperity. Poverty describes a permanent loss or abatement of prosperity. Progressive and highly developed countries suffer from depression; unprogressive and decayed countries suffer from poverty."

WHAT IS PROSPERITY

Of course, the other side of the situation would be the business condition called prosperity. The transition from depression to prosperity reminds one of the law of action and reaction which is, ¹"To every action there is always opposed an equal reaction." Prosperity is a slow, gradual period of evolution from the depths of despair to the plateau of good business. ²"The increased confidence in business prosperity gathers momentum with rapidity. The new enterprises in the field are able to compete with old established firms only because of the era of high prices. Capital is rapidly becoming scarce and there is much credit tension. Commodity prices by this time have reached high levels. Stocks prices, however, have already started to fall. Any event may dislodge the economic structure from its false position of security. Many banks are in a weakened position because they have extended loans on the basis of inflated values."

1. Newton, Sir Isaac, MATHEMATICAL PRINCIPALS OF NATURAL PHILOSOPHY, 2nd Edition, P.15.
2. White, Percival, BUDGETING IN BUSINESS MANAGEMENT, 1926, P.59.

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1. Newton, Sir Isaac, MATHEMATICAL PRINCIPLES OF NATURAL
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2. White, Percival, UNDERSTANDING BUSINESS MANAGEMENT, 1922, P. 22.

The summation of all the preceding factors leads to the following definition of prosperity: ¹"Prosperity is that interval of super-normal business beginning with the month in which the index recovers to 100 and ending with the month preceding a persistent recession to sub-normal business."

BUSINESS NORMALCY

The business cycle theory has four main groups, namely: the decline, the depression, the recovery, and finally prosperity. Normalcy of business conditions comes just before the decline on the downward movement of the business cycle, and just before recovering on the upward movement of the cycle. A study of the long range trend of business conditions leads one to draw the conclusion that business conditions never remain normal, that is to say, at exactly 100 for any great length of time. When the state of business hovers around, or very close to, the 100 point, it is sufficient to say that business is normal.

It must be remembered, however, that this so-called 100 figure must be adjusted not only for seasonal variations, but also for the growth of the country or nation under consideration.

If business should theoretically stay at exactly 100 for any protracted period, the fundamentals of economics and also the desire for personal gain would soon eliminate such a Utopia.

1. Persons, Warren M., FORECASTING BUSINESS CYCLES, 1931, P.197.

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THE SIGNIFICANCE OF BUSINESS DEPRESSIONS

Since the early business history of this country, we have experienced nine major depressions. Some have lasted only a year, while others have extended into as many as six years. Ever since the first major depression, namely in 1837, economists, historians, and business men have been attempting to eliminate the causes and effects of business depressions. Seemingly the remedies instituted to help us out of the previous depression have sometimes become the problems of the subsequent depression. History seems to repeat itself unfailingly. The economic significance is even more pronounced. This consideration involves, not only one country, but the entire group of countries. ¹"It has frequently been stated that crises and depressions manifest themselves only in a highly civilized state of society, where commerce and industry flourish and there is enterprise and spirit. Also, that until within a comparatively short time they have not been recognized except in England, France, Belgium, the United States, Holland, and the Scandinavian countries, while more recently they have appeared in Austria, Germany, and Russia. It is no doubt true that crises occur where credit and enterprise are found. Nations which do not experience these visitations are not on that account to be congratulated, for their absence indicates a permanent state of stagnation. On the other hand, nations much less advanced than those mentioned have felt the influ-

1. Burton, Theodore E., FINANCIAL CRISES AND PERIODS OF INDUSTRIAL AND COMMERCIAL DEPRESSION, 1926, P.36.

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ence of these disturbances. ¹In 1873 and the succeeding years, the date of the most wide-spread and representative of all crises, Brazil, the Argentine Republic, and Peru, all experienced the distress which arises from falling prices, deficiency of employment, and the results of previous overaction. The disturbances in each of these countries followed an increase of trade relations with more advanced communities and large expenditures for public and private works. British Consular Reports of that time fully portray the situation there. The results were much the same as in more advanced nations, with a tendency to increased severity because of the absence of a diversity of resources. If the symptoms were less pronounced or the sufferings less acute, it was because the industrial organism was less complicated. A study of conditions in the Argentine Republic in 1890 affords one of the most valuable object lessons upon the subject of crises.

¹"It would thus seem that crises are incident to a state of progress and expansion rather than dependent upon the degree of advancement."

²"A depression seems to fall upon mankind out of a clear sky. It scorns to choose a moment when the earth is impoverished. For, in times of depression, is the soil less fertile? Not at all. Does it lack rain? Not at all. Are the mines exhausted? No; they can perhaps pour out even more than the old volume of ore, if anyone will buy. Are the factories, then, lamed in some way--down at heel? No; machinery

1. Burton, Theodore E., *CRISES AND DEPRESSIONS*, 1926, P.37.
2. Fisher, Irving, *BOOMS AND DEPRESSIONS*, 1932, P.5.

and invention may be at the very peak. But perhaps the men have suddenly become unable or unwilling to work. The idea is belied by the spectacle of hoards of workmen, besieging every available employment office.

"Perhaps, then, the world has become overpopulated. But how could that happen in so short a time? When the calamity starts there seems to be enough of every good thing to go around; everybody wants it, and nearly everybody wants it enough to work for it; yet some cannot get it, and many who can get some of it must be content with less." This is the social significance of the problem.

PURPOSE OF THE STUDY

There are three main purposes of this study. First, to determine the causes of depressions. Second, to determine the effects of depressions. Finally, to arrive at various methods of attacking these depressions.

There have been innumerable causes given for business depressions. For example, one of the nineteenth century depressions was explained thus: ¹"The one and only cause of the existing economic disturbance was overspending, over-consuming, destroying more wealth than is reproduced and its necessary consequence, poverty." This theory seemed reasonable and satisfied a great many economists for a time, but the awkward feature about claiming this theory is that depressions for a hundred years have always followed periods which reflect the greatest increase in wealth. Furthermore,

1. Price, Bohamy, THE CONTEMPORARY REVIEW, April 1877.

each depression seems to be more severe in countries which have made the greatest progress in wealth, and not in those which have made the most progress towards poverty.

Each depression brings out a new crop of alleged causes, each one reasonable enough to satisfy at least a portion of the population, and of course enough of them in number to satisfy almost every one for a time. But the entire population have never been satisfied by any single one of the alleged causes, and as the mystery has deepened with each generation, so the interest in its solution has increased.

As years have passed, many of the learned and scientific men of different nations have made an effort to solve the mystery. Thus, you might say that the number of alleged causes has been greatly increased. However, each depression has at least several old causes, and perhaps only one new one; so that, fundamentally speaking, the last nine depressions have brought out most of the major causes.

The determination of the effects of a depression are far reaching. New methods, new economics, new inventions, new processes, new laws, and many other changes are brought about from the lessons learned in the last depression.

The methods of attacking depressions may be summarized under three main headings: 1, Natural course; 2, Scientific method, and 3, Governmental control.

As soon as the first effects of a depression are felt, a great cry arises for artificial business stimulants.

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little men of different nations have made an effort to solve the mystery. Thus, you might say that the number of alleged causes has been greatly increased. However, each depression has at least several old causes, and besides this one new one; so that, fundamentally speaking, the list is not longer. Some have brought out most of the major causes.

The determination of the effects of a depression

are far reaching. New methods, new economics, new inventions, new processes, new laws, and many other changes are brought about from the lessons learned in the last depression.

The methods of attacking depressions may be grouped

into three main headings: 1. Natural causes; 2. Human-made method, and 3. Governmental control.

As soon as the first effects of a depression are

felt, a great cry arises for artificial business stimulants.

Much propoganda for vast public works programs are broadcast, "buy-now" programs are launched, and other means are used to inject into falling business the necessary strength to turn the tide. Many economists argue that these methods or suggestions only delay the depression from running its course for a short period of time. They say with a great deal of boldness that we must have a depression every so often, and unfortunately the schedule calls for it now. Why waste time, money, and effort in order to stem the downward tide? Let the depression take its natural course. Artificial stimulants work only for a time, and eventually may cause conditions to be much worse. So they say, with a great deal of resignation, let the depression take its natural course. This is the negative way of fighting business depressions.

Another school of thought, somewhat more modern, claims that there is a scientific way of battling the great plague called business depressions. Its principal methods of attack lie in the control of the fundamentals of economics. Let us exert control over production, commodities, employment, money and such like, and the depression will be of short duration. Control over these important factors is based on certain formulas and standards which they have devised over a period of years. This last depression which we have just passed through has been one in which the scientific method of attack was very popular. This school feels that if you let the depression run its natural course, it might lead to a

national catastrophe much more severe than if it had been controlled.

An even more stringent method of attack is that of governmental control. This is even more far-reaching than the scientific method. The government steps in and practically runs business. Emergency legislation is passed which sometimes becomes permanent law much to the disgust of the business man. The money and the monetary system is changed at will, and almost over night tremendous profits are made by some, and severe losses are sustained by others. Governmental assistance in combating the depression is of great aid, providing it is of a technical nature and is not too political.

HISTORICAL EXAMPLES OF BUSINESS DEPRESSIONS

The depression of 1819 as previously stated was the first depression experienced by the recently organized government of the United States. Although at the time it seemed rather disastrous, subsequent depressions made this one seem very small. Therefore, as a basis for the historical examples contained in this study, the first one to be considered is the depression of 1837. This depression and eight others constitute the major depressions. However, in addition, there were six other minor depressions worthy of consideration.

Depression of 1837

¹The panic of 1837 was one of the most disastrous this nation has ever experienced. It was the consummation of numerous events that extended back over a number of years. It

1. McGrane, Reginald, THE PANIC OF 1837, 1924, P.1.

marked the close of one period in our industrial history, and the beginning of a new era. It was all-inclusive both as to the population and also as to all phases of our economic life. It required exactly seven long years to master this oppression. The chief revelation was the weakness within our financial organization, resulting in the collapse of the Bank of the United States in 1832. This bank failure laid the foundation for the crisis of 1837. Immediately the Second Bank of the United States was organized, but was refused a charter by the government. Leading bankers at that time then organized under a state charter.

¹"By the spring of 1835 the country had apparently forgotten its past disorders. Not only was the United States out of debt, but, largely through this amazing sale of the public domain, she was piling up a surplus in her treasury. The value in property in New York was higher than it had been for five years, business was brisk, and the city assumed a new aspect."

²"The quantity of public lands sold in 1835 was three times the amount of 1834."

This land speculation called forth an elaborate credit system which expanded greatly among individuals and states. On July 11, 1836, came the Specie Circular. The Democrats claimed this Circular had been issued to stop the

1. McGrane, Reginald, THE PANIC OF 1837, 1924, P.5.
2. Exec. Doc., Twenty-fifth Cong., Second Sess., Doc. 80. LAND OFFICE REPORT, January, 1838.

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¹By the spring of 1838 the country had apparently forgotten its past disasters. Not only was the United States out of debt, but, largely through this amazing sale of the public domain, she was filling up a surplus in her treasury. The value in property in New York was higher than it had been for five years, business was brisk, and the city assumed a new aspect."

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This land speculation called forth an elaborate credit system which expanded greatly among individuals and states. On July 11, 1838, came the Specie Circular. The Democrats claimed this Circular had been issued to stop the

further monopolizing of the public land for speculation. Their opponents, the Whigs, naturally found entirely different reasons, all of a condemnable nature. They asserted that its intent was to reduce the surplus; that it enabled land speculators to sell their land speedily at a handsome profit, so that they might be able to refund the money they had borrowed from the pet banks; and that it aided the brokers, acting as agents for some of the officers of the government, to realize fortunes for themselves and their employees by speculating in certificates of deposit signed by the United States treasurer, and transferable in whole or in part to land purchasers. Furthermore, western farmers would be compelled to buy their lands from New York speculators at a large advance.

Whatever doubt existed in the minds of the people concerning the motives for the Specie Circular, it had very definite results. The treasury order, by withdrawing specie from the east, and carrying it far into the interior, naturally crippled the financial facilities of the large eastern cities, and eventually led to a general contraction throughout the nation. Hoarding of specie became very popular, and caused it almost to disappear from circulation.

At this time the Federal Government was practically out of debt, and United States funds were to be placed in many banks. This condition naturally brought a flood of new banks into existence with the hope of getting government funds for deposit.¹ Between 1830 and 1836, 347 new banks were chartered, of which 249 of these were in the East. The estab-

1. McGrane, Reginald, THE PANIC OF 1837, 1924, P.13.

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1. McGraw, *Nationality*, THE RATIO OF 1837, 1838, P. 10.

lished banks overextended loans because they expected to receive large government funds. ¹Debt due to banks increased from \$28,000,000 in 1830 to \$56,000,000 in 1837 which represented an increase of 100 percent in only seven years. Currency in circulation increased even a greater percentage from \$59,000,000 to \$140,000,000.

Within six years the value of real estate rose over 150 per cent in New York City. Overtrading, speculation, and investment in unproductive undertakings became a dominant note in American society.

The chief method of attacking this depression was final co-operation between the banks of the nation and of the Federal Government. The banks of the country, especially those located in New York City, put forth a strenuous effort for the resumption of Specie payments. ²"The appeal, nevertheless, went unheeded. So long as the government upheld the enforcement of the Specie Circular, which forbade the receipt of anything but gold and silver at the land offices; so long as the administration pressed forward its plans for a Sub-treasury; and so long as the Legislature of Pennsylvania did not fix a time for resumption, there was no need to be "rushed into resumption" merely to satisfy New York. Any premature action would place the United States Bank at the mercy of the government. If the latter threw treasury notes on the market after the Bank had agreed to make its payment

1. McGrane, Reginald, THE PANIC OF 1837, 1924, P.13.

2. Hull, George H., INDUSTRIAL DEPRESSIONS, 1911, P.144.

in specie, the Bank's own depositors would exhaust the supply of gold and silver in its vaults in purchasing these notes. It was much wiser, therefore, to remain on the defensive."

President VanBuren is credited with one of the most important steps toward restoring the Government's credit through his Sub-Treasury scheme in 1840. It restricted payments to or by the government to gold or silver coin which was a leading contribution to the rebuilding of confidence and business prosperity.

After the panic of 1837, gold and silver coin used, of course, as a metallic base of "hard money" brought back public confidence and business prosperity.

The Three Years' Depression from 1846 to 1848

Business conditions commenced to revive to a considerable extent in 1844, but did not gain full headway, as they were checked by a sudden and enormous advance in prices in the spring of 1845. ¹"During the next eighteen months, prices declined steadily. By August 1846 they had settled back nearly to the low level of two years before."

The Mexican War broke out in May, 1846, and peace was declared on February 2, 1848. This war was very short and sharp, and it therefore caused no serious financial depression, and the debt created was met without difficulty. ²"The expenditures of the war department during the three years April

1. Hull, George H., INDUSTRIAL DEPRESSIONS, 1911, P.144.

2. Dewey, Davis Rich, FINANCIAL HISTORY OF THE UNITED STATES, 1909, P.255.

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The Three Years' Depression from 1846 to 1848
Business conditions commenced to revive to a considerable extent in 1846, but did not gain full headway, as they were checked by a sudden and enormous advance in prices in the spring of 1846.¹ During the next eighteen months, prices declined steadily. By August 1846 they had settled back nearly to the low level of two years before.

The Mexican War broke out in May, 1846, and peace was declared on February 2, 1848. This war was very short and sharp, and it therefore caused no serious financial depression, and the debt created was met without difficulty.² The expenditures of the war department during the three years April

1. Hull, George H., INDUSTRIAL DEPRESSIONS, 1911, p. 144.
2. Doney, David Reed, FINANCIAL HISTORY OF THE UNITED STATES, 1909, p. 255.

1, 1846, to April 1, 1849, were \$80,845,116, as compared with \$21,991,123 in the three previous years; and the expenditures of the navy department for the period April 1, 1846, to October 1, 1848, were \$18,758,900, as compared with \$14,007,281 for the two and a half years before the war. These sums, making a total excess of \$63,605,621, were met by loans in the form of treasury notes and government stock."

European trouble during this same period also added to our difficulties. This depression was one of great severity; however, no financial disturbance of sufficient intensity, such as a panic, occurred. The public today hardly remembers this depression, simply because it was not accentuated by a panic. The method of attack was comparatively simple. Prices of commodities were very low, and of course this condition had a tendency to increase the number of contracts for construction and general building purposes. Railroad construction also encouraged by low cost was very large. All these factors led to a great period of industrial prosperity culminating in the latter part of 1857. Although this sustained period of prosperity was temporarily halted during the last half of 1854, the tide soon turned again to last until the middle of 1857.

The Panic of 1857.

The United States during the preceding years had been a very rapidly developing nation as far as business went, but at the same time a financially weak one as compared with

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The United States during the preceding years had been a very rapidly developing nation as far as business went, but at the same time a financial crisis was being worked up.

European countries. Many of the new banks which opened during this period were of a speculative and unreliable nature. Furthermore, a great deal of capital was absorbed in the construction of canals and railroads, especially in 1856. Considerable national development was also made along other lines. This, of course, called for a steadily increasing and finally excessive amount of loans, an increase in a much faster proportion than the amounts of new bank deposits. One especially bad defect during this period was the inability of the banks to restrain in any manner or to check capital expenditures for unwarranted expansion of business.

The rates of discount rose rapidly and money became very scarce. Stock exchange securities declined, and the market became demoralized. The transaction of business became difficult, causing contraction to set in. This, of course, was accompanied by many bank failures due to inadequate and inefficient banking facilities. This condition resulted in loss of confidence which immediately precipitated a collapse.

The failure of the Ohio Life Insurance and Trust Company on August 24, 1857, marked the beginning of the crisis, although the actual panic was postponed until October 13, 1857. The immediate effects of these perilous conditions were hoarding by banks and individuals, and runs on banks, which caused the banks to refuse to redeem their notes in specie. Bank notes therefore were sold at a discount. Interest rates rose to 25 per cent and later to 100 per cent, causing a drying up

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of all new security issues. Railroads temporarily suspended interest payments on their bonds and commodity prices fell from 10 to 35 per cent.

The actual duration of this crisis was between three and four months, and ended when the banks resumed Specie payments in December, 1857.

This depression was exceedingly sharp, yet it was short lived; real recovery set in immediately, stimulated by the bright agricultural outlook and the inflation of the Civil War period which soon began.

Natural causes were the primary reasons that brought the country out of this depression. There was no special method of attack. Even though it was readily apparent that our currency and banking conditions needed revision, Congress took no steps to remedy this situation. The depression of 1857 taught the disastrous effects of wild speculation, such as that which took place with the influx of new metal into the currency following the California gold rush.

The Short Depression of 1861-1862

This depression occurred just before, or at the start of, the Civil War. Previous to this, namely, on December 20, 1860, the South Carolina Ordinance of Secession was announced; and on February 4, 1861, the Southern Confederacy was formed. About the middle of 1861, the public debt of the United States was \$74,985,000, of which about \$18,000,000 had been incurred since the beginning of the secession movement. The available funds in the treasury amounted to only \$1,716,000, and until

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Congress could assemble for the purpose of passing new legislation, the only way of providing funds was by the sale of bonds. Government credit at this time was at a low ebb, and Thus the bonds had to be sold at a discount; even so, only a few million were sold.

¹"When Congress met in special session, July 4, 1861, Chase was ready to propose financial measures on a more comprehensive scale. He estimated that the sum needed for the next year would not fall far short of \$320,000,000.....

"To provide for the ordinary expenditures, for the interest on the public debt to be created, and for a sinking fund to extinguish the debt, Chase recommended that \$80,000,000 be raised by taxation; the extraordinary expenses were to be met by loans.....

"On the proposed loan of \$240,000,000 Chase suggested a high rate of interest, 7-3 per cent, on short-term treasury notes, or 7 per cent, on long-term bonds, to be sold at not less than par; for immediate needs he favored an issue of treasury notes in smaller denominations bearing a lower rate of interest."

It did not take Congress long to accept these plans, and they finally voted to empower the secretary to borrow \$250,000,000 in three-year 7.3 per cent treasury notes, or in twenty-year bonds not exceeding 7 per cent.

²"In view of the difficulties encountered by the

1. Dewey, Davis Rich, FINANCIAL HISTORY OF THE UNITED STATES, 1909, pp.276-277.
2. Dewey, Davis Rich, FINANCIAL HISTORY OF THE UNITED STATES, 1909, P.278

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When Congress met in special session, July 4, 1861, Chase was ready to propose financial measures on a more comprehensive scale. He estimated that the sum needed for the next year would not fall far short of \$300,000,000.
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1. Dewey, David Rich, FINANCIAL HISTORY OF THE UNITED STATES, 1903, pp. 276-277.
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treasury department in placing small loans during the previous winter of 1860-1861 this operation might well seem hopeless; but three changes in conditions had occurred which affected the disposition of capitalists with funds to invest. In the first place a definite policy had been adopted; loan and tax bills had gone hand in hand; and, in the light available to the most acute political observers of the time, ample provision had been made for the demands of a contest which it was confidently believed would be over in a few months. Secondly, a more liberal rate of interest was authorized, which tended to attract capital deprived by political disturbance of its ordinary commercial use. Thirdly, the spirit of loyalty was being aroused to the recognition of the need of financial as well as military support of the government; business men more intelligently realized the dependence of commercial interests on the stability of the government. Thus it was possible in one operation to borrow and transfer from the people to the government more wealth than had as yet ever stood as the principal of the public debt."

Naturally the banks of the country had to absorb most of this government financing, and since the banks had limited capital in the first place, it restricted further loans for business enterprises.

¹"The northern banks in general were able to maintain specie payment until the latter part of December, 1861, when they were forced to suspend, followed almost immediately

1. Faulkner, Harold Underwood, AMERICAN ECONOMIC HISTORY, 1924, P.381.

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"The northern banks in general were able to maintain specie payment until the latter part of December, 1861, when they were forced to suspend, followed almost immediately

by the federal government. In the south, outside of New Orleans, suspension occurred immediately after the opening of the war and continued until the end. The wild-cat banks in the west were especially hard hit, not only because of their methods of banking, but also because of their more intimate relations with the south. In Illinois, out of 110 banks, 89 failed, while in Wisconsin 39 and in Indiana 27 went under."

Civil War activity was the main power that overcame this depression. It is true that thousands of farmers enlisted in the Union Army, and thousands more deserted agriculture for the mines of the far west; however, they were replaced by the work of women in the fields, by the influx of immigrants from Europe, and also by the use of labor-saving machinery. Not only agriculture enjoyed marked prosperity due to the necessity of feeding an army which numbered almost a million men, and also an ever increasing population of the country as a whole; but also manufacturing in the north received a marked prosperity. This stimulation of manufacturing was attributed to the needs of the War, and also to the liberal protection afforded by the recently passed Tariff Acts. The country experienced during this period, the greatest prosperity in its history until the year 1865.

The Depression of 1865-1866

The Civil War left the southern states in a deplorable condition. ¹"Everywhere demoralization, confusion, and destruction seemed to abound. The war had lasted four

1. Harlow, Ralph Volney, THE GROWTH OF THE UNITED STATES, 1925, P.531.

years, with the greater part of the fighting in the South, bringing terrific waste and loss. The whole political, social, and economic system had collapsed; the very fabric of Southern civilization seemed to be torn into shreds. There was no organized government, because when the Confederacy went to pieces, the states fell at the same time. The only functions of government and administration that were carried on at all were those in charge of federal troops. Property had been destroyed on every hand: farm buildings, shops, railroads--both track and rolling stock. The labor system to which the South was accustomed had disappeared. Most of the comparatively meager supply of accumulated capital in the South had been sunk in worthless paper currency and equally valueless bonds. The two or three billion dollars invested in slaves of course was charged off with the advent of emancipation."

This severe deflation, of course, had psychological effect upon the North, but only for a short length of time. Soon manufacturing was revived, and the replacement of the many items lost during the war was started.

The southern states' demand for goods along with the increased demand in the North soon brought the country out of this short depression. ¹"The Southern States, instead of sending their raw cotton to the north, or to Europe, began to manufacture it in increasing quantities, and now competed with northern mills for the markets of the Mississippi Valley. The

1. Day, Clive, A HISTORY OF COMMERCE, 1923, P.562.

development of iron production in the South was phenomenally rapid. The rich coal and iron fields of the Southern Appalachian range were opened and contributed now an important share of the total output, while large industrial centers were growing up in Chattanooga, Birmingham, and other Southern cities."

This system of spreading the manufacturing establishments over the dense settled portions of the United States, and also the increased efficiency of our agricultural sections enabled the country to enjoy almost eight years of prosperity and general industrial expansion.

Long International Depression of the Seventies

A study of the antecedent conditions leading up to this international depression is well worth an analysis. Railroad construction all over the world was on a scale previously unknown, the first transcontinental railroad being completed in this country in 1869. Industrial and other construction work also was at a new high level. Great progress had been made in the development of our natural resources along with many new uses made of our raw material. An enormous increase in manufacturing and agricultural activity and output involving colossal absorption of capital was reflected. National credit of our government and also business organizations was high, but our monetary system was imperfect, and our currency somewhat inflated.

National banks were created chiefly to insure a market for government bonds, through bond-secured national

bank notes which they issued. The government became more closely identified with the nation's banking affairs, but Congress did not provide the necessary legislation to enable the banks to check over-expansion with a corresponding over-strain of credit. Along with the great prosperity there was a steady expansion of loans and a scale of living and personal expenditures never before seen in the United States.

The initial steps leading up to the crisis were as follows: high interest rates for the preceding two years along with extremely low bank reserves against deposits; wide and irregular fluctuations in security prices; panicky conditions on the stock exchange; and enormous amount of railroad securities placed on the market which embarrassed underwriting and banking institutions endeavoring to float them. On September 18, 1873, the crisis was ushered into the United States by the failure of Jay Cooke and Company.

This Company was the country's leading brokerage firm, and at that time was engaged in building the Northern Pacific Railway. Thus, the collapse of railroad speculation was started.

While this depression was due chiefly to over-development in America, its birthplace was in Germany, and thus it spread to the entire world. Its immediate effects were very serious. Bank deposits were withdrawn with great rapidity. No loans, not even upon the presentation of good collateral, were obtainable. Much money disappeared from circula-

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tion, legal tender notes were at a three per cent premium, and gold notes at a six per cent premium. Not only were bank failures in the majority, but there were also nine failures in every one thousand commercial houses. The New York stock exchange was closed for ten days, and the suspension of payments lasted for forty days.

Depressions of this kind affected the entire industrial set-up. No business organization, regardless of its size, was exempt. Even commodities dropped twenty per cent, and many were unsaleable. The crisis lasted about three months. Recovery began on the stock exchange around November 13, 1873, but the real business recovery did not set in until 1879, the year of resumption of Specie payments.

The greatest factor contributing to the Panic of 1873 was the unsound financing of the Civil War through the issuance of "green backs" as currency, and it took some years to outlive the results. The usual distress caused by this inflation was experienced by wage earners, salaried people, and all with fixed income.

European crop failure aided us to a great extent in combatting this depression. This helped us to increase our foreign trade to \$1,278,762,000 in 1879. Further aid in the elimination of this depression was the increase in new construction of railroads to 4,746 miles and the increase in iron production to 2,742,000 tons. Bank clearings increased to \$39,000,000,000.

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European crop failures added on to a great extent in combating this depression. This helped us to increase our foreign trade to \$1,578,763,000 in 1879. Further aid in the elimination of this depression was the increase in new construction of railroads to 2,740 miles and the increase in iron production to 2,725,000 tons. Much enterprise happened to \$50,000,000,000.

¹"In fact, the entire year witnessed an improvement so marked that at the end of the twelve months, mills were in full operation, all labor was employed, and the entire country was in a very prosperous condition." Congress provided, as a result of this depression, a safe, but inelastic currency secured by bonds. This depression will be remembered as one in which we had a depreciated currency. As soon as the situation was rectified, namely in 1879, as was previously stated, recovery set in and prosperity was restored.

Depression of 1884 to 1886.

Another period of international depression was confronted during the years 1884 to 1885. This one was due primarily to the preceding great and rapid expansion of the West, and also to the enormous railroad construction. Prior to this time, earnings of the railroads had been very large due to the profits derived from the hauling of their own supplies for construction. However, these unusually large earnings declined as the roads approached completion. Many corporations paid out large stock dividends to their stockholders, and also brought out new issues of securities which caused tremendous inflation.

This depression was primarily an industrial depression only, as we did not suffer to any degree financially. The inflated condition of things in 1881 needed only the severe shock of the assassination of President Garfield to throw the

1. Babson, Roger W., BUSINESS BAROMETERS, 1929, P.176.

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This depression was primarily an industrial depression, as we did not suffer to any degree financially. The inflated condition of things in 1881 needed only the severe shock of the assassination of President Garfield to throw the

country into a decline. The country rallied, however, from this disaster, Jay Gould making his famous exhibit of securities in 1882 in the vain effort to stay the panic. ¹"As will be seen by referring to the newspapers of that day, it was clearly understood by students of conditions that a distinct decline had begun, and Gould probably knew this as well as any man. Therefore, although he was preaching that the conditions were perfectly sound and that still greater prosperity was ahead, he himself was doubtless unloading and liquidating with all possible speed in preparation for the public withdrawal of his support later. Moreover, the banks were aiding their directors by keeping down money rates although the demand for money was very great. Students of fundamental statistics, however, could not be misled, and knowing that the area of over-expansion was rapidly being consumed, prepared for trouble."

In the beginning of 1884 Henry Villard failed and was soon followed by the failure of James R. Keene, the Marine Bank, the Metropolitan Bank, and the House of Grant and Ward. This last failure was disheartening as General Grant was the idol of the nation. ²"New construction declined to 3,973 miles, and iron production was reduced to about 500,000 tons. Bank clearings decreased to \$44,000,000,000. Failures rose to 10,968 in number, with \$226,000,000 of liabilities. Immigration also declined to 500,000 in number.....On the stock market, artificial support being removed from money conditions, stock

1. Babson, Roger W., BUSINESS BAROMETERS, 1929, P.180.

2. Babson, Roger W., BUSINESS BAROMETERS, 1929, P.182.

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rectors by keeping down money rates although the demand for money was very great. Students of financial statistics, however, could not be misled, and knowing that the area of over-expansion was rapidly being consumed, prepared for trouble.

In the beginning of 1864 Henry Villard failed and was soon followed by the failure of James A. Fiske, the Union Bank, the Metropolitan Bank, and the House of Street and Wall. This last failure was interesting as General Grant was the

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1. Babson, Roger W., BUSINESS ECONOMICS, 1929, p. 100.
2. Babson, Roger W., BUSINESS ECONOMICS, 1929, p. 102.

prices fell rapidly. Stock sold at 113 in February, and 85 in the winter months. Net railroad earnings declined to \$2,318 per mile."

The crisis was of short duration. Stock market prices reached their low point in the fall of 1884, and increased in 1885 considerably. However, a strong agricultural crop helped out this situation. Final recovery was made during 1886, and by 1887 prosperity was again in full swing.

The defeat of the various bills which were introduced into Congress for the reduction of the tariff caused a special increase of confidence among manufacturers, wholesalers, and bankers. This, perhaps, was the one thing that turned the tide, although money rates also remaining normal greatly encouraged new enterprises. The passage of the Interstate Commerce Act in 1887 was a further boom to business and inaugurated the policy of government-controlled railroads, thus doing away with the worst of the railroad speculation era.

The Depression of 1893-1898

This period of depression did not witness any destructive wars. However, many highly speculative enterprises were launched, calling for vast quantities of bank credit. Many great railway and industrial projects were launched by England in her colonies, and in such regions as South Africa, and South America.

In the United States, while the decade prior to 1893 saw many railroad receiverships, there was much competitive

railroad building and absorption, and extension of smaller lines by larger systems.

The initial stages of the panic which reached its crucial stage in 1893, and which continued until 1895, was the failure of Baring Brothers. ¹"The sensational collapse of the greatest banking house in England produced serious apprehension in the United States, which soon began to take form.

"So far-reaching in its effects was the Baring failure that it precipitated liquidation of merchandise and securities throughout the world. Immediately following the announcement, great quantities of American securities were dumped on the American market. The pressure to sell upon a declining market and the withdrawal of loaned funds so unsettled confidence that in November, 1890, there developed a money panic on the New York Stock Exchange which one day forced the rate for money to 186 per cent."

This time the currency troubles were due to the extensive coinage of silver. The ratio adopted of 16-1 greatly overvalued the cheaper metal, driving out gold and bringing in artificial rise in prices.

All these troubles, plus the failure of the English banking house of Baring Brothers, led to the withdrawal of much English capital, and also contributed to the export of gold, large amounts of which were probably hoarded. In all of our history up to that point, the gold reserve had never dropped to such a low point.

1. Price, Walter W., WE HAVE RECOVERED BEFORE, 1933, P.67.

Nevertheless, the West and South experienced an enormous expansion in bank loans. The price of securities on the New York Stock Exchange declined thirty to fifty per cent. The early part of the summer of 1893 brought on a sudden contraction of loans, followed by the failure of the Reading Railway and National Cordage Company. The beginning of the crisis was actually on July 25, 1893, when the Erie Railroad failed, and the Milwaukee Banks suspended payment.

¹"During the first six months of 1893 failures numbered 8,100, and for the entire year there were about 15,300 failures, with liabilities of over \$350,000,000. Gold brought a premium of 4 per cent. No industry escaped the blight of severe depression. The low prices of farm commodities were calamitous, but, to make matters worse, farmers suffered also from serious crop failures. Distress was acute. Hunger and want were widespread."

All of this culminated in the repeal by Congress of the Silver Purchase Law on October 30, 1893. The acute stage of the crisis covered about forty days, and ended early in September. After the political campaign of 1896, the Gold Standard Act of 1900 was passed. Emergence from the depression was greatly aided by a succession of good harvests and the discovery of gold in Alaska. Conditions became so favorable that American manufacturers began to invade foreign markets. Gold as a single standard of currency brought the country out of the depression of 1893, although its influence

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J. Price, Walter W. WE HAVE RECOVERED FROM THE 1930, P. 77.

was not completely felt until the Gold Standard Act of 1900.

The Panic of 1901

The panic of 1901 dawned upon the country after a very extraordinary period of prosperity and speculation, and was precipitated by the efforts of two contending factions for the control of the Northern Pacific Railway. The market price of this stock rose from \$100 per share to \$1,000. Shorts finally were permitted to settle at \$150 per share, but for a time during the day a good part of Wall Street was technically insolvent.

The year 1901 was one of the most eventful in our country's history. Notable occurrences included the already mentioned stock market corner, the complete failure of the corn crop with ensuing high prices, lowered yields on all other crops excepting wheat, and the break in Amalgamated Copper over failure to hold the price of copper at 17 cents in December with the collapse of the copper market.

A good many mergers were planned and these along with the good support afforded by the sound banks soon brought the country into a period of general prosperity.

The Depression of 1903-1904

The panic of 1903, which carried over into the year 1904, was marked by three important factors, namely, the decline of the steel business to a low ebb with the resulting organization of the syndicate which underwrote the new bond issue of United States Steel Company, the collapse of the shipbuilding

was not completely felt until the Gold Standard Act of 1900.

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The year 1901 was one of the most eventful in our country's history. Notable occurrences included the already mentioned stock market corner, the complete failure of the corn crop with ensuing high prices, lowered yields on all other crops excepting wheat, and the break in long-expected copper over failure to hold the price of copper at 14 cents in December with the collapse of the copper market.

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The Depression of 1902-1904

The panic of 1902, which carried over into the year 1904, was marked by three important factors, namely, the decline of the steel business to a low ebb with the resulting stagnation of the syndicate which underwrote the new bond issue of United States Steel Company, the collapse of the shipping

trust, and the puncturing of over-capitalized and un-digested security issues.

This movement terminated in 1904, the first impetus coming with the decision in March of the Northern Securities case. Not only was confidence reflected in a great demand for good bonds, but also a substantial rise was experienced on the Stock Exchange. In manufacturing and trading lines, business was poor during the early months, but a decided improvement took place in the last five months of the year.

Depression of 1907-1908

At this time the credit conditions among the larger nations of the world were not in very good shape; in fact they were favorable to a crisis. Furthermore, business was progressing at such a fast pace that the credit resources of the country were unable to supply the needs. Interest rates continued to rise and security price trends were downward. The increased cost of commodities and labor finally offset the great percentage of business profits.

The crisis was inaugurated by runs on many banking institutions and the suspension of the Knickerbocker Trust Company. Next a run developed upon the Trust Company of America, which in intensity and duration has hardly been exceeded in any similar instance in the City of New York.

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though this panic was one of the most acute of its kind, it was not of long duration, and within a comparatively short time, as a result of the forceful direction of Mr. Morgan, the gravity of the situation and the danger that threatened the entire politic were brought to an end by a complete restoration of confidence."

The major result of this depression was the formation of the National Monetary Commission whose investigations ultimately resulted in the Federal Reserve Act.

Anti-Trust Scares and the Depression of 1911

Politics and government interference, which proved so disturbing to business in 1910, continued to sap the confidence of business men in 1911. Particularly in the railroad and industrial world were these factors upsetting. In the railroad field, the absolute refusal of the Interstate Commerce Commission to grant higher rates worked an undue hardship even on the well situated roads. Their refusal proved both surprising and disappointing and caused great retrenchment. Of course this was instantly felt in the heavy industries such as iron and steel and also in all equipment lines.

The federal authorities likewise initiated many new trust prosecutions and hinted that there was to be no end to such litigation. Apprehension was made all the more acute by reason of the fact that in May the Supreme Court confirmed the dissolution of the Standard Oil Company and the American Tobacco Company. Agricultural crop yields were low because of

the drought and prices were high, thus advancing the cost of living.

The financial markets did not experience any great difficulties and, contrary to what might have been expected, the stock market closed the year at approximately its opening levels.

Business recovered from this minor depression early in 1912 in spite of the government's continued litigation against large business organizations. The method of attack during this short depression was rather negative, in that since business had been abnormal, the law of supply and demand would naturally call for an increase in business.

The Depression of 1914

The general wave of prosperity created by the expansion of the credit basis, the vast corporate mergers, the opening of new markets abroad, and the expanded relationship with the rest of the world culminated in the depression of 1914.

¹"By far the greatest event in this year was the beginning of the Great European War. The decline of 1913 quickly developed into depression. Several enormous failures occurred in June and July, including the Claflin catastrophe. This liquidation seemed to clear the air. There were many indications that an improvement in business would come with the bountiful fall harvests. Such was the situation when on August 1 the European War burst upon the world, bringing panic to the

1. Babson, Roger W., BUSINESS BAROMETERS, 1929, P.219.

financial circles, the closing of exchanges, and the stagnation to business. As business was well liquidated, no serious national catastrophe occurred, and matters soon began to adjust themselves to the new situation."

If the World War had not come just at this time, it is probable that the reaction of 1914-15 would have proved one of our most important turning points. The war alone brought the country out of the depression and made possible many of the developments in our national life that are now so familiar. The War itself stimulated prices and energized industrial activity. The War was also the signal for the government to drop the anti-trust agitation. Furthermore, the eastern railroads were allowed to increase their freight rates.

This crisis emphasized the need of massing reserves and credit expansion such as the Federal Reserve System provided.

The Depression of the Early Twenties

The period preceding the crisis in 1920 was marked by the greatest expansion which has ever occurred in the United States. Industrial capacity increased 30 %. This great activity of course was no doubt stimulated by the War. As a result of the War, the United States turned from a debtor nation to the role of creditor and assumed the position of foremost power in the world. The banking center was no longer in London but in the largest city in the world, New York City.

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The period preceding the crisis in 1929 was marked by the greatest expansion which has ever occurred in the United States. Industrial capacity increased 50%. This great activity of course was no doubt stimulated by the war. As a result of the war, the United States turned from a debtor nation to the role of creditor and assumed the position of foremost power in the world. The banking center was no longer in London but in the largest city in the world, New York City.

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preceded by very high money rates, by evidence of great uneasiness, by demands on the part of the banks for the curtailment of over-extended loans, and by a collapse of commodity prices."

This collapse of the commodity prices accentuated the depression. During the first part of 1920, business in general continued at high speed. Unsatisfactory transportation conditions caused merchants to duplicate their orders, thus increasing the demand. The result naturally led to an accumulation of large stocks of goods piled up in this country and the slackening of the European demand. Living costs went up until consumers were unable to pay the high prices demanded. The inevitable reaction took place with a sudden break in commodity prices. Just a few examples are noteworthy; wheat dropped from \$2.75 to \$1.70; and corn declined \$1.02 per bushel to \$.68. After this reaction a wave of contract cancellation threatened the very structure of business morale.

Through the operation of the now well established Federal Reserve System a much more orderly readjustment took place. The System not only made it possible for temporarily embarrassed concerns to receive help but also afforded inter-district accommodation.

Business remained below normal for about two years but was finally artificially helped by favorable legislation. The passage of the Rural Credit Act and the extension of the War Finance Corporation were tremendous aids. Another important change was the revision in the eligibility requirements of

the Federal Reserve System, enabling the banks to extend and provide a greater amount of credit to a much larger business structure.

This depression was one of the worst for the railroads. More mileage was abandoned than built, acquisition of new equipment fell to a new low point, declines in freight and passenger business were the greatest ever known, and the net return earned the smallest since 1894. Most of the period many of the railroads struggled to keep out of bankruptcy.

Early in 1922 there was a marked change for the better in all the factors that had previously helped to paint such a black picture. The depression was finally conquered by revival in building operations, a pronounced pick up in the automobile trade, the placing of large equipment orders by the railroads, and the subsequent increase in the iron and steel output.

Although this revival was hindered to a certain extent by labor troubles, finally settled during the middle part of 1922; the stock market saw continually rising prices which were influenced more by an investment demand than by the speculative element. Led by the great building boom and later by the public utility boom the country recovered and entered the greatest period of prosperity in its history.

The Depression of 1930-33

¹"That the present world economic crisis is more universal and more severe than any hitherto experienced in modern times is beyond reasonable question. The distress of business

1. Arendtz, Hermann F., THE WAY OUT OF DEPRESSION, 1931, P.1.

enterprisers is shown in the high rate of bankruptcies prevailing in the leading countries of the so-called 'capitalistic' world, the distress of agriculture is reflected in forty-five cent wheat at Chicago, farm foreclosures and a steady run of bank failures in agricultural regions. Seven-cent copper and thirty-cent silver reflect woe of the mining industry; while many millions of unemployed all over the world testify to the near breakdown of the ordinary economic operations through which the needs of the world's people are accustomed to be supplied."

The real decline in business began in the first part of September, 1929, and was accentuated by the Hatry failure in London. ¹"The first spectacular evidence that America was in for a depression was the crash of the New York Stock Market."

²"During 1928 the Federal Reserve Board tried to check the speculating fever by gradual advances of the re-discount rate, half of one percent at a time, from $3\frac{1}{2}$ per cent to 5; in vain. On August 8, 1929, the rate was advanced more drastically from 5 to 6. This caused an ominous but temporary drop in the market; there was a quick recovery, and not till September 7 did the market reach its peak."

On September 26 the Bank of England's discount rate was increased to the very high figure of $6\frac{1}{2}$ per cent. This action of the Bank of England produced a flurry of selling in the New York Stock Exchange. Right then a retired New York

1. Fisher, Irving, THE STOCK MARKET CRASH AND AFTER, 1930.
2. Fisher, Irving, BOOMS AND DEPRESSIONS, 1932, P.86.

broker said, ¹"This marks the end of the New Era bull market?"

September 29 marked the beginning of the panic. On October 24 nearly 13 million shares were traded and it was the most sensational day of trading that the New York Stock Exchange has ever seen. But not for long, for only a few days later, on October 29th, nearly 16½ million shares changed hands. Then came the third and last spectacular day--November 13, 1929. The Federal Reserve System exerted all of its power to prevent this great avalanche. It purchased securities in the open market in an effort to check falling prices, and it even cut the re-discount rate on the 14th, but all of these factors were, at the most, temporary pauses on the tremendous downward landslide.

²"Between the loans on the stock market and the stock market price level there could not be a better example of a vicious spiral. With every distress liquidation the price level fell; and every fall of the price level drove a new set of people into further liquidation, which still further lowered the price level, which compelled still further liquidation, and so on and on."

The course of industry and trade in 1930 was almost persistently downward, with the brief exception of the opening two months, when the Spirit of optimism arrested deflation temporarily. This was due, for the most part, to a series of economic conferences in which leaders promised not to cut wages or restrict production. This move on the part of President

1. Hickernell, Warren F., WHAT MAKES STOCK MARKET PRICES? 1932, P.173.
2. Fisher, Irving, BOOMS AND DEPRESSIONS, 1932, P.91.

broker said, "This marks the end of the New York market." September 29 marked the beginning of the panic. On October 29 nearly 15 million shares were traded and it was the most sensational day of trading that the New York Stock Exchange has ever seen. But not for long, for only a few days later, on October 29th, nearly 18 million shares changed hands. Then came the third and last speculative day--November 13, 1929. The Federal Reserve System exerted all of its power to prevent this great avalanche. It purchased securities in the open market in an effort to check falling prices, and it even cut the discount rate on the 14th, but all of these factors were at the most, temporary panics on the tremendous downward slide.

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Hoover later proved to make conditions worse.

Iron and steel showed a continuous monthly decline with the sharpest decrease in December. Demand was limited and subsequent price-cutting resulted in utter collapse.

A sweeping downward revision in stock prices, extension of the reduction in brokers' loans from a peak of \$8,549,000,000 to \$1,894,000,000, and margin trading reduced to low levels made 1930 an outstanding year on the Stock Exchange.

The year 1931 was one of intense business depression from the very beginning to the very end, with activity dwindling each successive month and pessimism rampant. Security prices depreciated daily and commodity prices sank lower and lower. New financing was at a ridiculously low level, unemployment reached 8,000,000, and the whole situation was made worse by the dark outlook of the international situation. A million fewer automobiles were produced than in 1930 and three million fewer than in 1929. Building suffered a severe slump, which in turn depressed the very important lumber business and industry. The railroads suffered terrible losses and many were obliged to reduce and suspend dividends. Some went into receivership, such as the Florida East Coast Railroad and the Wabash Railroad.

In Europe affairs turned for the worse, just at the time the United States was reaching the low point of the depression. In June when President Hoover secured an international agreement to a moratorium on reparations and war debts, temporary relief came. The month of September was very important

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in that Great Britain, after exhausting two large French-American credits, found it necessary to suspend the gold standard, a move which was soon followed by all the Scandinavian countries.

The stock market was completely demoralized and prices melted away as never before. Stocks used in the Dow-Jones averages declined 62% from the high of the year, making the downward movement the most extensive in the history of the averages. Bonds also suffered as severely as stocks.

The year 1932 did not bring any relief from the existing chaos. In fact, business declined to new low levels. In the midst of a demoralized stock and bond market in May, 1932, several industries decided to close up shop almost entirely, with the result that coal mining, the textile industry, the steel industry, and hundreds of other small industries were operated for the United States as a whole, at perhaps not more than 25 per cent of capacity.

The building industry, usually one of great dependability, had suffered one continuous slump. Great efforts were made to revive this part of business through vast public works programs which proved ineffective because that branch was only a small part of the total. The average for the building industry was around 25 per cent of the 1923-1929 levels.

In June security liquidation dried up, a bond investment pool was formed under the auspices of New York banks, headed by J. P. Morgan & Co., and a sharp upward movement ensued in both bonds and stocks. This soon became a terrific

surge and reached a volume of trading climax in the middle of September at levels averaging 100 per cent above the June figures. In some cases, stocks were up 700 or 800 per cent, but as a whole the levels of the spring before the decline were not reached.

Business started upward for one month, but liquidation of bank loans continued to such an extent to cause enough pressure on business to stop this upward move. Commodity prices, after advancing sharply, renewed their decline.

The month of October witnessed the turn of the political tide with the state of Maine going Democratic. This marked the beginning of the great Campaign to be launched on the Democratic side on a plank of more outspoken and radical promises than the country had heard in its history. These were embodied in the three words, "The New Deal". The Republican platform was based primarily on a "Stand Pat" attitude, taking for granted the greatness of President Hoover. Both of these philosophies were expressed by nation-wide political advertising campaigns. However, with very little advertising, President Roosevelt carried all but six states.

The banking situation grew from bad to worse.¹ "The first major shock occurred on October 31, when the Lieutenant-Governor of Nevada declared a banking holiday for twelve days because of the difficulties of twelve banks with about \$17,000,000 of deposits, controlled by George Wingfield. The effect on the State of Nevada of the closing of twelve banks

1. Bogen, Julius I., THE BANKING CRISIS, 1933, P.134.

out of a total of twenty-five can easily be imagined. The statement of the Lieutenant-Governor in declaring the banking holiday contained the following ominous sentence: 'The situation has at last been reached where the conditions can no longer be met by ordinary banking methods without reorganization. It has become necessary to call upon the public to understand the problem and to unite in the plan to save it.'

This moratorium in the State of Nevada was the first of many to follow. For a time, many believed that this would be only an isolated instance, and that the banks in the other states would be able to ride out the storm without invoking extraordinary measures. This hope proved to be false. The stock market reached a new low point in July, but closed the year at somewhat higher levels.

"The financial structure of the country was face to face with an apparent collapse. Vivid stories of what had happened during the German and French inflations, with their resultant widespread ruin and misery, occupied the thoughts of the American middle class, which began to think in terms of inflation."

The year 1933 was ushered in with a certain degree of enthusiasm; at least the people were encouraged by the fact that in a few months the noble experiment called "The New Deal" was to start. But the intervening months proved very disastrous to American business and especially to our American banking system. The lead taken by the State of Nevada late in 1932, in declaring a moratorium on the banks of the State, was followed

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in February by the State of Louisiana. ¹"The sense of security of the large commercial banks in the East, based on their extraordinary liquidity, was suddenly jarred by the news that the State of Michigan on February 14, 1933, had declared a banking holiday until February 21, 1933. The time for clownish gestures, for finding an excuse for bank holidays, was gone. Governor William A. Comstock of Michigan declared frankly that, in view of the acute financial emergency existing in the City of Detroit and throughout the State of Michigan, he deemed it necessary in the public interests and, upon the request of the Michigan Bankers' Association and the Detroit Clearing House Association, to declare a state holiday. With one stroke of the pen the bank deposits of the State of Michigan, amounting to approximately \$1,500,000,000 and involving about 550 banks, were tied up. The financial resources of one of the greatest industrial states of the Union thus became frozen over night."

The closing of the Michigan banks marked the beginning of the final crash. March 4th, the Inauguration Day, was celebrated to the tune of a national edict closing all the banks of the nation. Withdrawals on loans from insurance companies were forbidden. Plans to issue script, and a multitude of other proposals in the next few days had to be weighed by the new Administration. Money in circulation had increased over 50 per cent in three weeks, due to a great extent by unwarranted hoarding on the part of a great many short-sighted

1. Bogen, Jules I., THE BANKING CRISIS, 1933, P.142.

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I. Soper, John F. THE BANKING CRISIS, 1933, p. 143.

people. Others understood this to be the extraordinary climax of a cash craze in contrast with the security craze and installment and credit craze of 1929. They, of course, logically bought securities and their confidence has since been amply rewarded.

To those whose concept of national finance and the monetary system was vague, the uncertainties of those few days led to some nervousness. After nine days the majority of the banks were opened for all business purposes except the payment of gold. In the midst of this whirlpool of destruction, the relief in the hearts of the masses, at having an Administration in which they could have a new confidence, was apparent at the opening of the banks, for there were absolutely no runs whatsoever, and as a matter of fact, total deposits were much greater than withdrawals.

Business was at a standstill, the building industry having even dropped to about 10 per cent of its boom-time levels. The Stock Exchange was also at a stand-still, being closed for two weeks. However, when it re-opened, prices advanced to as much as 100 per cent in some issues. During the moratorium, the nation had gone from cash crazy to property crazy, but the lack of sufficient cash with which to carry on the exchange of stocks and business resulted in a mild recession in prices which, however, did not last long, because weekly statistics on business activity were beginning to climb rapidly. An embargo was then declared on gold exports, and it was not long before the dollar was quoted at a discount in

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foreign markets; thus ended, temporarily at least, the gold standard. The nature of the gold standard was at last understood. Creditors accepting billions upon billions of bonds payable in gold knew that the supply did not exist for the simultaneous payment on demand in gold.

The previously mentioned developments and the rapidity with which Congress in special session passed campaign platform legislation, the unanimity of spirit, and the overwhelming support given the President, resulted in the sharpest advances ever experienced in the history of the New York Stock Exchange. Conservative investor, speculator, and gambler had one purpose,--to buy common stocks for the protection of purchasing power and as a hedge against inflation.

From this memorable date in history, namely March 4th, 1933, until the end of 1933, more legislation was passed applicable to business than in any other year in our history. The inflationary legislation program was passed by Congress along with radical farmer bounties for curtailment of agricultural output. New tax laws were aimed at the holders of wealth, restrictive laws were directed at our banking system, and new security issue laws dried up the majority of new financing.

1 "The administration believes the country is much better off to keep the money in Main Street rather than have it go to Wall Street. Hence, notwithstanding the justified complaints of the investment bankers, the President believes that more good than harm is being done by the New Securities Act. He believes that

1. Babson, Roger W., WASHINGTON AND THE REVOLUTIONISTS, 1934, P.10.

the legislation is in the interest of the underdog."

The National Industrial Recovery Act was also passed through Congress without much difficulty. This led to the sharpest revival of business activity and employment ever experienced in the Nation; the textile industry, for example, which had been depressed for years, was operating at almost 100 per cent capacity. Part of this increase was due to anticipated higher wages under the codes, a large portion to actual orders on hand, a certain degree to transfer of liquid wealth into commodity wealth, and the balance to an increase in business confidence.

This New Deal legislation called for vast expenditures, and the national debt in three years increased by \$6,000,000,000. The total national debt at the end of the 1933 fiscal year was approximately \$22,539,000,000.

Many other important events took place during 1933, such as the International Monetary and Economic Conference in London; the passage of processing taxes on various commodities; initial purchase of gold by the Government; abolishment of Child Labor; governmental attempts at depreciating the dollar in order to raise commodity prices; a public epidemic of rate reductions aimed at the public utilities; resumption of diplomatic relations with Russia; and the repeal of the Prohibition Amendment. All these factors in addition to many others enabled business to close the year at about 25 per cent above the low levels arrived at in March; and about 20 per cent above the beginning of the year levels.

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in 1933, and the national debt in three years increased by \$6,000,000,000. The total national debt at the end of the 1933 fiscal year was approximately \$22,832,000,000.

Many other important events took place during 1933, such as the International Monetary and Economic Conference in London; the passage of protective taxes on various commodities; initial purchase of gold by the Government; abolition of Child Labor; Governmental attempts at stabilizing the dollar in order to raise commodity prices; a public epidemic of deflation aimed at the public utilities; resumption of diplomatic relations with Russia; and the repeal of the Prohibition amendment. All these factors in addition to many others enabled business to close the year at about 85 per cent above the low levels attained in 1932; and about 80 per cent above the beginning of the year 1931.

The year 1933 marked the turning point in the greatest depression ever experienced in our modern civilization. Practically every known method of attacking a depression was used. Perhaps the greatest effort put forth was by the administration under the leadership of our so-called dictator, President Roosevelt. In no other depression of the past have college professors played such a prominent part in gathering, analyzing, and disseminating statistics. These professors, in addition to their statistical work, have been called by President Roosevelt "the brain trust", and as such have given him much valuable assistance and aid in combating the tremendous problems which confront a president in such a period of chaos.

Perhaps the greatest single method of attack was the threat of, or the actual use of, inflation. Of course inflation naturally means an increase in the prices of goods and commodities which eventually means an increase in the purchasing power. ¹"Of course, business moves ahead when new purchasing power is put into action. (Do not overlook the fact that the mere buying of commodities as many have done to protect themselves against inflation does not by itself increase business.) New purchasing power comes into effect and business moves forward when those in charge of such operations see gain in the action. When is there likely to be a gain? Certainly not if selling prices will be lower than costs--and again certainly not if selling prices, though higher, were to be in money which threatened to become worthless soon. Many people

1. Babson, Roger W., WASHINGTON AND THE REVOLUTIONISTS, 1934, P.312.

in discussing inflation overlook this latter aspect of the subject. They are not aware that beyond a certain point, which may be impossible to determine, there would be a tendency for business to stop entirely and to hoard the available supply of goods in warehouses and in process. In such a case inflation would destroy its present objective." So far inflation has not been carried to a disastrous extent.

The other pronounced method of attack was the exertion of governmental control of business. ¹"A final effort to save the capitalistic system--a move toward a new economic system--a form of state socialism--an ominous extension of bureaucratic control of industry-- a guarantee of social justice--a plain partnership between Government and business--these are merely a few of the descriptive terms leveled at the National Industrial Recovery Act." It is no doubt true that as for the partnership between government and business, some phase of it is written in almost every line of the new legislation. So far the National Industrial Recovery Act has meant a great deal, not only to the American business man, but also to the wage earner. Business under this act certainly has been better than at any time during the entire depression.

²"In America, where heretofore unadulterated individualism has been the unchallenged faith of the whole people, we have seen the government undertaking far-reaching plans of financial regeneration; elaborate economic schemes for the re-

1. Valenstein, Lawrence, BUSINESS UNDER THE RECOVERY ACT, 1933, P.20.
2. Angell, Sir Norman, FROM CHAOS TO CONTROL, 1933, P.140.

lief of the farmer; and shortly we shall see States embarking upon unemployment insurance, the while the Federal Government is brought nearer to international planning by a less trammelled participation in the World Economic Conference."

In summary, the depression has been fought along twelve definite lines:

1. "Special interest must be sacrificed to general interests. This is the basic principle of the revolution in connection with the redistribution of income.
 2. "The adoption of a system of economic planning in the interests of the entire country.
 3. "Protection of the credit of the federal government by a policy of economy and the balancing of the budget.
 4. "Balancing farm and industrial prices and getting the prices of raw materials back to the 1926-28 level.
 5. "Inaugurating the large public works program and other features to create employment.
 6. "Entering into the ownership and operation of great public works such as Muscle Shoals, Columbia River, St. Lawrence development, Boulder Dam and the Mississippi River in the interests of undeveloped sections and handicapped people.
 7. "Protecting the people's savings by strengthening the banking situation and safeguarding the issuance and sale of securities.
 8. "Coordinating the transportation systems to eliminate waste and increase efficiency, the purpose being both to
1. Babson, Roger W., WASHINGTON AND THE REVOLUTIONISTS, 1934, P.320.

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5. "Intensifying the large public works program and other features to create employment.
6. "Entering into the ownership and operation of great public works such as Muscle Shoals, Columbia River, St. Lawrence development, Boulder Dam and the Mississippi River in the interests of underdeveloped sections and handicapped people.
7. "Protecting the people's savings by strengthening the banking situation and safeguarding the insurance and sale of securities.

8. "Coordinating the transportation system to eliminate waste and increase efficiency, the purpose being both to
- I. Babson, Roger W. W. W. Washington and the Revolution, 1934, p. 250.

reduce rates and to protect investors.

9. "Take a vigorous part in world affairs on the theory that one nation cannot prosper in the long run unless other nations prosper likewise.

10. "Reduce working hours, both to spread employment and to create more leisure for spiritual and cultural development.

11. "Protect legitimate debtors from losing their homes and farms by the creation of the Farm Credit Administration and the Home Loan Corporation.

12. "Embark upon federal relief to assure every worthy person who is able to work a position, and those who are not able to work, aid."

REGULARITY OF BUSINESS DEPRESSIONS

A study of the major and minor depressions since the original organization of our government leads one to draw the conclusion that there is no definite number of years elapsing between the various depressions. Some were seven years apart, while others occurred after a lapse of only two years; in some cases, especially minor depressions, only a year separated the depression.

Law of Action and Reaction

One interesting fact from a study of past depressions is, that they are always followed by a period of prosperity of about the same degree of intensity or volume as that of the previous depression. For example, the nation enjoyed a marked

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period of prosperity from 1916 through most of 1920, or five years; whereas the offsetting depression lasted only two years, but was of much greater intensity.

¹"In other words, to say that a period of overexpansion or period of depression will last any given time, irrespective of the business activity of the country during such time, is contrary to all basic law. Yet upon such reasoning most of our predecessors have worked, while the others believed that a change in conditions comes when figures for pig iron, bank clearings or commodity prices reach a certain point. They entirely ignore the product of time and intensity. Only by multiplying one by the other can the true reaction be ascertained."

Cyclical Character of Fluctuations

Whether or not an individual believes in the necessity for cycle fluctuations in business, the so-called business cycle is a statistical fact, and as such must be given a great deal of weight. It is important when making a study along this line to consider the gradual growth of the country in figuring the amount of business increase or decrease from year to year.

Phases of Business Cycles

The business cycle is divided into four phases: depression, recovery, prosperity, and decline. Each of these phases is distinguished by certain characteristics which are

1. Babson, Roger W., BUSINESS BAROMETERS, 1929, P.137.

fairly well recognizable, and which of course serve to identify the particular position in the cycle.

The low point of the business cycle is distinguished by a very small volume of speculation, increase in bank reserves, and little business activity. It is also characterized by a mental depression, or a lack of confidence which makes it difficult to secure orders even though prices are extremely low.

The second phase in the business cycle marks a change from a general feeling of pessimism to a sentiment of confidence in the future. Stock prices reflect substantial gains and the general activity of the stock market increases. Commodity prices show a brisk tendency to move upward and manufacturing concerns find orders coming in at an increased rate. Corporations during this period usually turn net losses into net profits. This phase is called the period of recovery.

The next and third phase is a period of prosperity. Business is at a high ebb, wages rise, and there is a shortage of help in many lines. Speculation runs rampant with stock prices daily making new highs. Conservatism has vanished and over-confidence exists on every hand.

Just at the time when things seem to be reaching a new high point, the decline comes. Wages and materials have reached such a high point that net profits begin to fall off. This diminuation in profits and the high interest rate causes the prices of stocks to cease advancing and then to start downwards. Banks start calling their loans and failures be-

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come pronounced.

Uniformity and Variability of Business Cycles

We are always in some phase of the business cycle. A review of business annals never discloses the existence of an exact normal state. Prosperity is elapsing into depression, or becoming more intense, or breeding a crisis; a crisis is degenerating into a panic, or subsiding into depression; depression is becoming deeper, or merging into a revival of prosperity.

Therefore, the only uniformity that exists is in the course of business up or down. The depression may be very intense followed by a period of recovery lasting several years. In the past, some business cycles have lasted twelve years, whereas others have been completed in as little as four years; so really the only variability in business cycles is the duration, and the extent. ¹"A revival of business activity does not always develop into prosperity--sometimes it relapses into depression. Such deviations from the usual course of events occurred in the United States in 1892, 1895, and 1910. A situation of intense strain, presenting the phenomena of crises, sometimes follows a period of depression, instead of following a period of prosperity; for example, the American stringency of 1896.....Every business cycle, strictly speaking, is a unique series of events and has a unique explanation, because it is the outgrowth of a preceding series of events, likewise unique."

1. Mitchell, Wesley Clair, BUSINESS CYCLES, 1913, P.449.

DURATION

In the history of this nation there have always been periods of depression, periods of overexpansion, and intermediate periods. There is absolutely no dispute in regard to this statement. However, when it comes to a determination of the duration of these periods there is a distinct difference of opinion. ¹"It is the general impression that the great major trends are of about twenty years' duration, and the minor movements average 41 months' duration, with possibly still other swings of about ten years' duration. Probably the most interesting of the older works on this was by Samuel Benner, who, from 1875 to 1884, formulated a most elaborate system of charts and who, without doubt, clearly foretold the panics of 1884 and 1893, and the prosperous years intervening. Many other men have devised other charts and theories, some based on supposed economics and others based on superstition, but all have been found to fail, and have been forgotten."

It can generally be said, therefore, that the duration of a depression for the most part depends upon its severity. In reviewing some of the past depressions, it is interesting to note how the duration varies with the severity. Starting in 1863, the country enjoyed a marked period of prosperity for two and one-half years until the middle of 1865. Then business encountered a severe depression which lasted only one year. As a direct contrast to this, it is interesting to note that the middle of 1886 was the beginning of a period of pros-

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1. Hays, Roger W., BUSINESS CYCLES, 1886, p. 187.

perity which lasted seven years. This was followed by a depression extending for a period of five and one-half years, but it is interesting to note that this depression was not very severe, and business throughout the depression stayed at only 20 per cent below normal for a very short time.

Legislation of a controlling nature has at times shortened the duration of depressions, but it has only worked as a temporary expedient, and sooner or later the real depression will run its course. The passage of new legislation aimed at the activities of business is all right providing it is limited in amount.

The main factor that has an extremely important part in the determination of the duration of a depression is that of supply and demand.¹ "Variations and productive activity are closely related to changes in stocks. After the outbreak of the crisis, manufacturers and merchants restrict their purchases of raw materials which tend to fall in price; thus, while stocks of raw materials held by the producers have increased during the whole period of depression, it is probable that stocks in the hands of manufacturers have declined.....the stocks of manufactured goods held by manufacturers probably increased a little in the early stages of the depression, but there is no evidence that they have continued to grow." The condition just described is brought about by a decrease in the demand. Of course, the first few new orders that come in will

1. Loveday, A., COURSE AND PHASES OF THE WORLD ECONOMIC DEPRESSION, 1931, P.144.

period which lasted seven years. This was followed by a depression extending for a period of five and one-half years, but it is interesting to note that this depression was not very severe, and business throughout the depression stayed at only 80 per cent below normal for a very short time.

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not cause business to pick up to any great extent, because of the available supply which already exists. However, an unusual increase in the demand for goods will have a direct influence on the supply, and therefore it is this balance between demand and supply that has a great influence on the duration of depressions.

EXTENT OF DEPRESSIONS

Depressions may be limited to certain phases of general business such as a financial crisis, a commodity panic, an industrial depression, or one that takes in general business. Many of the past depressions have been due directly to financial difficulties; for example, the Panic of 1857 was the result of inadequate banking facilities, and as such was limited more to the financial element of business. And again, in 1901 the chief cause of this brief Panic was a corner on the stock exchange in Northern Pacific Stock. General business showed little fluctuation in either direction. Certain depressions have affected primarily commodities such as the depression of the early twenty's, when the index of commodity prices dropped from a high of 320 during the middle of 1920 to a low point of 150 in June of 1921. This was the largest known drop in the history of our country. This depression, while it was known as a commodity panic originally, extended into practically every line of business. The Depression of 1893-1898 was also noted for the part played by commodity prices, especially in the agricultural group.

At least one depression was limited almost entirely to manufacturing, and that took place during the years 1865 to 1866. It was very intense, and therefore did not last very long because manufacturing revived in the latter part of 1866.

It is worthy to note that some past depressions have originally started on a somewhat limited scope, and have finally extended into other fields of business activity. Others due to certain circumstances have been restricted to the one field. Perhaps the best example of a depression that affected the entire business field was the long International Depression of 1870. Every type of business, every financial organization, and every phase of the agricultural situation was depressed. Of course the most recent example which certainly has covered every conceivable business organization was the Depression of 1930 to 1933. This was the most far reaching that our nation has ever experienced.

A general depression is described by one authority as follows: ¹"a period during which depression spreads over the whole field of business and grows more severe. Consumers' demand declines in consequence of whole discharges of wage-earners, the gradual exhaustion of past savings, and the reduction of other classes of family income. With consumers' demand falls the business demand for raw materials, current supplies, and equipment used in making consumers' goods. Still more severe is the shrinkage of investors' demand for construc-

1. Mitchell, Wesley Clair, BUSINESS CYCLES, 1913, P.577.

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tion work of all kinds, since few individuals or enterprises care to sink money in new business ventures so long as trade remains depressed and the price level is declining. The contraction in the physical volume of business which results from these several shrinkages in demand is cumulative, since every reduction of employment causes a reduction of consumers' demand, and every decline in consumers' demand depresses current business demand and discourages investment, thereby causing further discharges of employees and reducing consumers' demand once more." Thus every phase of business is affected.

CURRENT THEORIES AS TO THE CAUSE OF BUSINESS DEPRESSIONS

A correct estimate of the causes of business depressions must receive an intelligent study before one can ascertain the effects and also the cures of depressions. The primary causes offered may generally be reduced to two--over speculation and the general decline in the level of commodity prices. Over speculation always causes trouble, and requires continuous correction. However, it is a less important cause of business recession than the drop in commodity prices. The far reaching and disastrous effects of a rapid downward movement in the commodity price level are not appreciated in their full significance by the great majority of people. It should be pointed out, however, that high prices do not necessarily make prosperity, nor do low prices produce adversity. It is the movement of prices that counts, and the extent of change is the real factor.

There have been many individual theories as to the specific causes for depressions, the majority of which will be discussed in the following pages.

Competition

Destructive competition has been the cause of many business failures. This competition comes from sources that are unacquainted with the actual cost of production, selling cost, and final profits. Once the demand for goods has been created, these concerns seem to set a price below the average charged by the reputable concerns. Then, on account of the low price which they quote, they receive large orders. In the production of these goods and their ultimate sale, these concerns are really using up part of their capital on every order they send out. The legitimate manufacturer cannot meet these prices and make a reasonable profit. They therefore curtail their production, and it is not long until their "cut throat" competitors become bankrupt, causing a decrease in the amount of business activity.

With unfair competition eliminated, or at least considerably lessened, competitive rivalry, on a sound and fair basis instead of being done away with, becomes still keener. It is the unfair competition that is one of the causes of our business recessions.

1

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1. Valenstein, Lawrence, BUSINESS UNDER THE RECOVERY ACT, 1933, P.104.

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Depression

Defensive depression has been the cause of many business failures. This condition comes from sources that are unassociated with the actual cost of production, selling cost, and final profit. Once the demand for goods has been created, these concerns seem to set a price below the average charged by the responsible concerns. Then, on account of the low price which they quote, they receive large orders. In the production of these goods and their ultimate sale, these concerns are really using up part of their capital on every order they send out. The legitimate manufacturer cannot meet these prices and make a reasonable profit. They therefore curtail their production, and it is not long until their "cut throat" competitors become bankrupt, causing a decrease in the amount of business activity.

With unfair competition eliminated, or at least considerably lessened, competitive rivalry, on a sound and fair basis instead of being done away with, business will recover. It is the unfair competition that is one of the causes of our business recessions.

"It has been said that, even in so-called normal

times, only 20 per cent of the companies in business make a profit that would exceed the returns that could be obtained if the money invested were simply kept in a savings bank..... This state of affairs may be largely attributed to uncontrolled competition. With business rivalry placed on a more sensible basis, profits should again flow into business and, as it does, merchandising efforts will be altered accordingly..... Given a better type of competition on the one hand, and a broader adoption of modern cost accounting methods on the other, and at least a portion of the enormous losses that have resulted from improper pricing should be wiped out and profits substituted."

Destructive and uncontrolled competition are both attributing causes to depressions, but fair competition booms business and results in subsequent prosperity.

Discrepancy between Wages and Productivity

The continually growing productivity of industry calls for a corresponding growth of a market for the products of industry if disaster is to be avoided. But to enable producers to sell their growing output promptly, prices must be reduced and wages must be increased in proportion to the supply of new goods. For it is only by combining an increase in the money income of the majority of the people with a decrease in the cost of commodities that a nations' home markets can be kept expanding with the progress of industrial methods. A decrease in wages fundamentally, adversely affects the purchasing power

times, only 50 per cent of the companies in bankruptcy make a profit that would exceed the returns that could be obtained if the money invested were simply kept in a savings bank..... This state of affairs may be largely attributed to uncontrolled competition. With business rivalry placed on a more sensible basis, profits should again flow into business and, as it were, merchandising efforts will be directed accordingly..... Given a better type of competition on the one hand, and a broader adoption of modern cost accounting methods on the other, and at least a portion of the enormous losses that have resulted from improper pricing should be wiped out and profits substituted."

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of the public. It is this decrease in the purchasing power that hurts business. Orders fall off, and manufacturers, in order to compensate for the decrease in business, must curtail the number of employees. These various curtailment steps are cumulative, and therefore have a much more severe effect on business. The germ of the trouble, then, is the tendency of prices to fall during periods of decreasing productivity. It is impossible to maintain prices along with an increase in unemployment, and furthermore, it is impossible to maintain wages over a protracted period of decreasing productivity. This is a very important cause of many of the past economic dilemmas.

Overcapitalization

Any one among many causes may so affect supply and demand as to cause the prices of some important group of commodities to rise. This advance is carried all along the line tending to raise the prices of all related commodities, and results in a concentration of purchasing power in the hands of those who own the goods which have advanced in price. This concentration of purchasing power converted into the form of money causes an accumulation of capital in the hands of a few, who, unable to spend or increase their consumption as quickly as their income has risen, desire to increase their profits by investment.

This larger supply of capital coming into the financial markets leads to a greater demand for the means of pro-

of the public. It is this decrease in the purchasing power that puts business. Orders fall off, and manufacturers, in order to compensate for the decrease in business, must cut tail the number of employees. These various adjustments steps are cumulative, and therefore have a much more severe effect on business. The gain of the trouble, then, is the tendency of prices to fall during periods of decreasing productivity. It is impossible to maintain prices along with an increase in unemployment, and furthermore, it is impossible to maintain wages over a protracted period of decreasing productivity. This is a very important cause of many of the past economic ailments.

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This larger supply of capital coming into the financial markets leads to a greater demand for the means of pro-

duction. Thus they receive a greater price for the use of their money which further increases their profits ultimately, resulting in a further concentration of purchasing power in the hands of a few. The process is once again repeated, and soon reaches industries which turn out capital goods and industrial equipment. But finally, the process works its own reversal. The centralization of purchasing power in the hands of a small capitalistic class reduces the purchasing power of the masses. Even though a few people have a vast quantity of purchasing power, it does not help business as much as spreading a small part of the purchasing power over the entire mass of the population.

In the end, therefore, the failure of consumption to expand at approximately the same rate as the accumulation of capital and the means of production in which the capital is invested, inevitably causes consumers' and producers' goods to fall in price.

¹"Thus prosperity and depression are two unlike results of the same cause--over-capitalization. That is, the ceaseless striving of productive energy to keep profitably employed causes production to expand more rapidly than consumption, and infallibly produces a maladjustment with alternating periods of expansion and contraction. The roots of the difficulty lie deep in the capitalistic organization of society, which separates the individual's activity in production from

his activity in consumption, and so favors inequality in the distribution of wealth--a condition which is both cause and consequence of over-capitalization."

Dissimilar Price Fluctuations of Producers' and Consumers'

Goods

A slight rise in the price of consumers' goods will cause a much greater change in the profits made by a manufacturing concern; that is, if the volume of output and expenses remain the same. This condition would lead to larger investments in the form of producers' goods. With the prospects of making larger profits on the same amount of capital invested, many investors would be led to this field. The resulting larger market for producers' goods again stimulates the production of such goods, and has the tendency to withdraw productive energy from the manufacturing of so-called consumers' goods. The cycle is then repeated because the larger market resulting from the increase in production of producers' goods tends to raise the price of consumers' goods still higher, which in turn again stimulates still further the creation of producers' goods.

There is no check to this tendency until the new investments in the stock of producers' goods begin to supply the market with greater quantities of consumers' goods. Immediately, the value of consumers' goods declines, which in turn produces a still greater fall in the value of producers' goods, and so the process continues with greater rapidity.

If it were only possible for the price of equipment with which we produce our goods to remain at the same level as the goods produced, one of the contributing causes to a great many of our past depressions would be eliminated. In recent years, the fluctuations in the prices of consumers' goods as compared with the values of producers' goods have not been so great, and therefore the ailments of the last few depressions cannot be attributed to this cause.

Contraction of Credit

Bank credit is one of the vitalities of business. The majority of business enterprises cannot get along throughout a protracted period of time without bank loans, large or small. This fact applies especially to companies that carry large inventories during certain seasons of the year. The amount of business they do depends a great deal on the line of credit they are able to obtain at the banks. Incidentally, one cause of the failure of a good many concerns is the use of the bank credit in the financing of capital improvements or extensions. Bank credit should only be used for working capital purposes, and the carrying of inventories.

¹"Panics are storms and it seems that these financial storms would not occur if people did not borrow for speculation or for capital requirements. Hence, when one so borrows, he endangers both himself and the entire community. He truly is an undesirable citizen.

"The forced selling of commodities, real estate, and

securities causes the abnormal breaks in prices.....

Those who are forced to sell at a loss are those who are borrowing on the commodities, real estate, and securities and are forced to sell. It is this forced selling which forces prices to abnormally low figures. Furthermore, as prices continue to drop, more and more loans are weakened and other persons are forced to sell. Thus every day adds to the difficulty, which finally ends in panic and in complete housecleaning at that level."

It is because the majority of business enterprises have to borrow to meet current requirements that any contraction of credit by the banks causes an immediate decrease in business. The Depression of 1920-21 when so many concerns were stocked up with inventories at excessively high prices is a good example of the results of credit contraction, when as previously stated, commodities dropped from 320 to 150. The major part of this drop was due to forced liquidation of inventories.

Panics and Unforeseen Circumstances

Panics may be of a temporary nature or they may extend into a protracted period. In the past, the majority of panics have been of a financial nature, although one or two of the important ones have had to do with commodities. If a panic is of a severe nature, it usually causes a general business depression, unless some form of control or remedy is offered immediately. Therefore, panics at times are the cause of depressions.

At times depressions are caused by unforeseen circumstances, such as have happened in the past, namely, secession troubles, severe crop failures, anti-trust scares, and the outbreak of an unexpected war. These factors, if not controlled immediately, may lead to a brief period of business recession, or if severe enough, may cause general business conditions to decline far below normal.

One other important factor along these same lines is that of the sudden discovery of the fraudulent and dishonest action on the part of one of the leaders in business and finance. The Insull case perhaps is a good example, and although the country was submerging into the depths of depression when the dishonesty of Insull was discovered, yet no doubt, it accelerated the pace of recession. Shortly previous to this might also be mentioned in passing, the similar case of Mr. Krueger. No particular depression can be directly attributed to these latter causes, but nevertheless, they all add to the uneasiness of the situation.

Overspeculation

¹"Speculation is the act of making a purchase that involves risk of loss, but also offers a chance for considerable profit. Speculation is the intelligent assumption of risk for the purpose of rendering a definite service."

This form of speculation is more or less of a limited nature, and if properly controlled will cause no great degree of trouble. Speculation has its economic use in providing a

1. Babson, Roger W., INVESTMENT FUNDAMENTALS, 1930, P.280

constant market at which securities may at any time be bought and sold. It is the conception of many people that speculation is an unnecessary element in our economic life, and that those who engage in such activities perform no service to society. If they acquire wealth by this means, it is not considered the result of honest toil.

Overspeculation, however, in a form that is really gambling, does a great deal of harm to existing peace conditions. The last depression was caused, to a great extent, by overspeculation in the Stock Market. ¹"Its effects unbalanced an already serious situation and accelerated the speed of the business decline, destroying the fortunes of large numbers of Americans. Retailers were among the first to act. The first dramatic stock market crash in October was almost immediately followed by a decrease in orders placed by them, and by a reduction of their inventories. The result was an abrupt slackening in the demand for the production of consumer goods, and, as the production of consumer goods is identical with the consumption of producers' goods, there were very soon no reasonable limits to the reduction of demand."

Of course, speculation cannot be carried to the danger point without an expansion of bank credit, especially extensive speculation in a wide range of commodities. ²"The speculative buying slows down, it is accompanied by the complaint of speculators that the banks will not let them have "any money to do business with." The speculative buying which took place in this

1. Mazur, Paul M., NEW ROADS TO PROSPERITY, 1931, P.7.
2. Foster, William Trufant, MONEY, 1923, P.242.

constant market at which securities may at any time be bought and sold. It is the conception of many people that speculation is an unnecessary element in our economic life, and that those who engage in such activities perform no service to society. If they acquire wealth by this means, it is not considered the result of honest toil.

Over-speculation, however, in a form that is really gambling, does a great deal of harm to existing peace conditions. The last speculation was caused, to a great extent, by over-speculation in the stock market. The effects manifested an already serious situation and accelerated the speed of the business decline, destroying the fortunes of large numbers of Americans. Retailers were among the first to act. The first dramatic stock market crash in October was almost immediately followed by a decrease in orders placed by them, and by a reduction of their inventories. The result was an abrupt slackening in the demand for the production of consumer goods, and, as the production of consumer goods is identical with the consumption of producers' goods, there were very soon no reserves left to the reduction of demand.

Of course, speculation cannot be carried to the degree point without an expansion of bank credit, especially extensive speculation in a wide range of commodities. The speculative buying alone does not, it is accompanied by the demand of speculators that the banks will not let them have "any money to do business with." The speculative buying which took place in this

country during 1919 could not have occurred under a barter economy; nor could it have occurred under a monetary system which permitted increases of money and bank credit only in proportion to the rate of increase in production or in volume of trade. The unprecedented increase in bank loans enabled many speculative middlemen, of no economic advantage to the community, to thrust themselves into the processes of distribution and retard the flow of goods."

Overspeculation is a factor in every commercial crisis, because under our present monetary system, it automatically boosts prices and causes a great amount of indebtedness based on an inflated currency, which of course almost prohibits the debtor from paying his debts. Whether speculation will continue to be a major cause of business crises depends upon legislation of a controlling nature.

Overproduction and Underproduction

It has been ascertained after much study that overproduction is one of the most frequently alleged causes for our great industrial calamities. ¹"The theory of overproduction is founded upon the belief that by the introduction of machinery, improved methods, etc., it is possible for man to produce more than man is able to buy, or more than man desires to acquire."

Overproduction has been a cause of depressions almost since the beginning of the early history of our country.

²"Tobacco was not only the staple crop of Maryland and Vir-

1. Hull, Geo. C., INDUSTRIAL DEPRESSIONS, 1911, P.24.

2. Adams, James T., THE MARCH OF DEMOCRACY, 1932, P.36.

ginia but also served as currency in the absence of coin, and frequent trouble arose from fluctuations in value. Before 1675 there had been for some time much distress in the Colony owing to the low prices of what was at once crop and currency. This was due in part to overproduction..."

It must be remembered that during the progressive inflation which makes possible the business boom, there is origination of excess purchasing power in the form of credit granted by the banks. This flood of new money flows out into the channels of trade with the following result: various producers find themselves making unusually large profits; in order to take advantage of the increasing demand, they naturally increase their productive facilities. This results in an increase of business all along the line as well as a general rise in prices. ¹"There are individuals who point accusingly at manufacturers and other producers with the cry that more things are made than people want. And on the other hand, there are those who point accusingly at the money-credit system and denounce it for failure to furnish enough money so that people can buy and consume what is currently produced."

Depression may also be caused by a disproportionate overproduction. There may be too much sugar and coffee and not enough wool and cotton. Such a situation might well be reflected in a price decline for sugar and coffee and a rise in wool and cotton. Of course if the overproduction exists in the necessities of life, it will have a greater effect on business activity.

1. Harwood, E. C., CAUSE AND CONTROL OF THE BUSINESS CYCLE, 1932, P.72.

which has also served as currency in the absence of gold, and frequent trouble arose from fluctuations in value. Before 1915 there had been for some time much distress in the Gold Coast owing to the low prices of most of our crops and currency. This was due in part to overproduction.

It must be remembered that during the progressive inflation which marked the business boom, there is a great deal of excess purchasing power in the form of credit granted by the banks. This flood of new money flows out into the channels of trade with the following result: various producers find themselves making unusually large profits; in order to take advantage of the increasing demand, they naturally increase their productive facilities. This results in an increase of business all along the line as well as a general rise in prices. There are individuals who profit exceedingly as manufacturers and other producers with the very few that make their money by buying and selling on the other hand, there are those who profit largely at the money-lender's expense and demand is for further to furnish enough money so that people can buy and sell what is currently produced.

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Just at the present time there is much agitation for the control of production of the farm as well as for the control of industries so that certain overproduction will not cause another stagnation of business as it has done so many times in the past.

Interest Rates

There are times when bankers refuse to extend further loans because they have exhausted their reserves, or because they have little faith or confidence in the ability of their customers to repay the loans. Such often has been the case during the latter part of periods of prosperity and during periods of liquidation. Bankers make their profits from loans to customers and during periods of depression they of course reduce the rate of interest and discount as an inducement to their customers to make greater loans. ¹"Low rates of interest during periods of depression do not induce business men to borrow heavily from banks. And during periods of prosperity high interest rates do not deter them from borrowing heavily from banks, because prospective gross profits are large."

Interest rates after they exceed a certain figure, say 6 per cent, have a great deal to do with the lack of further expansion of credit. Business men are willing to pay a reasonable price for the use of money, but when this price is excessive, they must curtail production, and thus reduce the volume of business they are doing. Carrying it a step fur-

1. Adams, Arthur B., ECONOMICS OF BUSINESS CYCLES, 1925, P.109.

ther, high interest rates cause a contraction of credit, which in turn is followed by a decline in the general price level.

Interest rates may therefore be considered an indirect attributing cause of depressions because business today must borrow for working capital purposes, and are therefore apprehensive when an increase in interest rates takes place.

Legislation

Legislation at times works undue hardship on general business. ¹"When the larger units of production, distribution and commerce first began to appear and displace the smaller, it aroused in the public a spirit of opposition that found political expression in the slogan "Bust and trust." Stringent and drastic laws were enacted forbidding all combinations in restraint of trade, but the trusts and monopolies continued to grow under them as they had never grown before."

Legislation of this type was the principal cause of the Depression of 1911. The large corporations at that time were doing a great volume of business, which of course enabled business in general to expand. With the proposed elimination of these large units the investing public as well as the consuming public became frightened, and felt that with the disintegration of these large corporations, business would severely suffer. Never was there a more convincing illustration of the futility of passing laws that had for their principal purpose the arresting of the march of economic progress. The

1. Thomas, A. F., THE WAY OUT, 1922, P.146.

public mind had come to recognize the economic superiority of these large aggregations, and to appreciate their ability to render more efficient service at a lower price than would be possible with numerous smaller units. In the first place, if governmental legislation were attempted on a scale and to an extent that would offer grounds for even a hope that it would be effective, the great complexity of it all would make it utterly impracticable. Business could not function under such a system.

Although the Depression of 1911 is the only one that was caused directly by legislation, a few of the other minor ones had for their principal cause legislative difficulties, such as the governmental control of the railroads, and unnecessary controlling legislation against the stock market.

Co-operative legislation with a minimum of political influence has achieved much in the past as an aid to business.

Taxation

Taxation has been a very important problem since the inception of our first form of government in this country.

¹"The problem of the government is to fix rates which will bring in a maximum amount of revenue to the treasury and at the same time bear not too heavily on the taxpayer or on business enterprises. A sound tax policy must take into consideration three factors. It must produce sufficient revenue for the Government; it must lessen, so far as possible, the burden of taxation on those least able to bear it; and it must also re-

1. Mellon, Andrew W., TAXATION: THE PEOPLE'S BUSINESS, 1924, P.9.

public mind had come to recognize the economic superiority of these large organizations, and to appreciate their ability to render more efficient service at a lower price than would be possible with numerous smaller units. In the first place, if governmental legislation were attempted on a scale and to an extent that would offer grounds for even a case that it would be effective, the great complexity of it all would make it utterly impracticable. Business could not function under such a system.

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move those influences which might retard the continued steady development of business and industry on which, in the last analysis, so much of our prosperity depends."

When the burden of taxation becomes extremely heavy, business men pause and wonder whether it is worth while for them to put forth such a great effort on their own business to produce profits, and then turn around and pay over to the Government the major part of the profits in the form of taxes. This attitude although correct and justifiable has a detrimental effect on business, and while it could not be considered a major cause of depression, yet especially in recent years it has become a factor which must be given considerable attention.

Furthermore, taxation also has an adverse effect upon business in an indirect way. An income tax on the income received by individuals, if it becomes a noticeable burden, causes these individuals to invest a greater proportion of their capital in tax exempt securities. This tendency causes a flow of capital into governmental, state, and municipal Bond Markets, which is particularly felt by businesses that require a great deal of capital in the form of bonded indebtedness, namely, the railroads and public utilities. The reversal of the flow of capital from legitimate business to public bonds makes it almost impossible for the railroads and public utilities to obtain new financing for necessary improvements or for the refunding of maturing securities. This retardation on the part of these two major industries causes a slowing up of enough volume along with other factors to result in a depression.

On the other hand, the adoption of a sound system of taxation will have a favorable effect in many directions. It will help the building industry, it would make possible lower freight and passenger rates by getting the railroads back on an efficiency basis, and it would also promote industrial and business activity by diverting into productive enterprise funds which are now going into tax exempt securities. Heavy taxation increases unemployment and unemployment leads to a business depression.

Psychological

Human nature is very changeable, and cannot be depended upon for any great length of time. In fact, at times just some particular whim of fancy may cause a serious business collapse. It does not take long for mob psychology to spread throughout the entire business realm. We have just recently passed through what was called by many the "New Era". Men of profound ability made numerous statements to the effect that we were in a period of everlasting prosperity, that the dark days of unemployment and business recession were gone forever. It was this same psychological feeling which carried this country to absurd heights and later caused the collapse of the high plateau of prosperity.

This same psychological condition also exists during periods of depression, at which time many economists go on record as saying that business has been definitely placed on a much lower level, and that from now on, we must put up with a great amount of unemployment, much smaller profits, and a

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lessened volume of business.

Psychological factors do not cause either periods of depression or periods of prosperity. They are a part of them. It is possible, however, for this factor to accelerate or retard the pace of business recession or recovery. In the troughs of depression a general feeling of confidence will do much to stem and even turn the tide of business. Optimistic feeling among the masses has a great effect on business conditions.

Distress Selling

The wholesale discharges of employees which occur during the first part of the crisis cause a decline in consumers' demand. The majority of corporations up until this time have been manufacturing on an expanded scale, and therefore have large inventories of saleable goods on hand. The sale of new merchandise is almost at a standstill. Along with the regular employees, business and professional men are also compelled to cut down on their purchases. Clothing and furniture are used longer before being discarded, and are replaced at urgent need by cheap articles.

Banks, due to the seriousness of the situation, start calling in many of their commercial loans. Manufacturers in order to keep their credit in good standing, and also to repay the bank upon demand, must raise cash. Knowing that to sell their inventory at the previously existing price level within a reasonable period of time would be impossible, they must sell the inventory for whatever it will bring, usually at a distress sale. This further deflates the price level of con-

sumers' goods. ¹"The processes which cause this shrinking in the volume of trade, like the processes which cause an increase in times of revival, are cumulative in their efforts. The more workmen are discharged the smaller becomes consumers' demand. Every reduction in consumers' demand causes a further decline in the business demand for the materials from which consumers' goods are made. On the one hand, this latter decline causes more workmen to be discharged, and on the other hand it discourages managers from making the repairs and renewals which they have in mind, and discourages capitalists from putting their new projects under contract. The longer these plans for improving and extending the industrial equipment are deferred, the less grows employment in the enterprises which provide materials. And the longer men remain wholly or partly idle, the more are their families forced to scrimp expenditures, so that consumers' demand shrinks still further, and this shrinkage further intensifies the influences which are constricting the volume of business." Thus, a depression caused by distress selling is started. Distress selling may be a result of cut throat competition.

Volume of Currency

In our present economic structure, bank deposits have largely replaced metallic and paper money as our medium of exchange. Therefore the volume of currency does not have any great noticeable effect on business conditions. It must be re-

1. Mitchell, Wesley Clair, BUSINESS CYCLES, 1933, P.557.

membered, though, that during times of financial strain, the masses have a tendency to hoard money. At such times there must be a great expansion in the volume of currency outstanding in the hands of the public.

Gold is usually considered as primary money and the foundation upon which the supply of credit money is based. Business is therefore to a certain extent tied up to the increase or decrease in the existing supply of gold. However, since credit money is not limited to the exact amount of gold, but is only on a percentage basis, this cause of business depressions is not a primary one. The velocity of circulation is of more importance than the volume of currency.

The Price Level

Fluctuations in the price level have a great deal to do in determining the trend of future business. When prices commence to decline, many manufacturers have on hand large quantities of their products and of materials ready for fabrication. For a time they are able to fill their orders from stock without making new commitments for raw materials. When they are finally forced to enter the market as buyers, knowing that prices are following a course of slow decline, they will engage in hand-to-mouth purchasing. Hence, the demand for raw materials declines more abruptly than that for finished products, and their relative prices change in accordance with the relative changes in demand.

This is also true conversely. When the price level reflects a rising tendency, purchasers of raw materials rush

in to the market and make long term commitments, which have a tendency, of course, to increase the rate of business activity.

The price level, furthermore, determines to a great extent the orders placed with manufacturers by wholesalers. If wholesalers notice that prices are showing a tendency to ease, their orders will call for only their immediate needs. Whereas, on the other hand, if wholesalers sense a coming rise in prices, they will immediately send large orders to the manufacturers. The results either way are cumulative, and therefore are primary causes for periods of business inactivity, or seasons of prosperity.

The Velocity of Circulation

During periods of good business there has usually been a rather rapid circulation of currency and bank deposits. Under our present system of Bank Reserves deposits can expand ten times. That is to say, if a deposit is made in one bank amounting to \$1,000, this same deposit may expand into total deposits of \$10,000. For example, Bank A receives the deposit of \$1,000 from a customer. It immediately must set aside a reserve of \$100 which is of course ten per cent. It is then free to lend the remaining \$900. It does so and as a result \$900 will be deposited in Bank B. This bank also carries through the same routine by setting aside ten per cent of the deposit, namely \$90, and lends the remaining \$810. Subsequently this \$810 reaches Bank C in the form of a deposit and once again the expansion of bank deposits is carried out. If every bank finally

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lends its deposits out to the full amount of the law, as stated above, the \$1,000 eventually amounts to \$10,000. This, of course, means that due to the fast velocity of circulation \$1,000 is made to do the work of \$10,000.

It must be noted, however, that if for example Bank C had not lent the lawful amount against its customers' deposit the multiple expansion of Bank Deposits would have reached only about \$3,000, instead of the \$10,000 already mentioned.

Therefore, velocity of circulation has a great deal to do with the starting of business reactions. The minute one bank starts to contract its loans, it immediately slows up the velocity of circulation and causes a slowing down of business, which, if followed by any great quantity of banks, will cause serious business retardation. ¹"Were it not for the lag of cash balances and the consequent alternating excess and deficiency of bank reserves, a state of equilibrium might be reached."

Deflation

A persistent policy of deflation may result in a major business depression or in greatly prolonging the recovery from depression. The depression of 1865-66 is a good example of this.

²"In 1875, when the Resumption Act was passed, the United States was on a non-redeemable paper-currency basis.

1. Hansen, Alvin Harvey, BUSINESS CYCLE THEORY, 1927, P.142.
2. Persons, Warren M., FORECASTING BUSINESS CYCLES, 1931, P.55.

The Resumption Act provided for the resumption of specie payments on January 1, 1879, on which date the country would be on the same monetary basis as the other leading commercial countries. But this deflation process was depressing to business."

Continued deflation is always disastrous to business. It is true that it is easier for people to pay off their mortgages and their other debts during a period of deflation, but this is only a small advantage, and furthermore, very few people at a time like this have the money to do so anyway.

With deflation ensuing, business men lose confidence and do not order or produce in as large quantities as they would under other circumstances. Inflation if not controlled, of course, may have an even more disastrous effect than deflation. However, Germany set such a bad example in manipulating the mark that other countries will control inflation. Therefore, it is generally thought that deflation is more dangerous, because it destroys confidence, initiative, and foresight.

The Gold Standard

The production of gold during the past century has not increased with the same degree of rapidity as the world's business. This increase in business naturally caused an increased demand for metallic money, occasioned by larger transactions and a larger extent of commercial operations. Thus, the purchasing power of metallic money was increased and at the same time it worked a hardship on debtors.

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England during the first part of 1930 was in a state of business inactivity, due mostly to a tremendous loss of gold. As soon as she went off the gold standard, immediately a marked degree of recovery was noticed. The same is true in this country although in our case we had a major portion of the worlds' supply of gold. Many economists believed that the last depression would not have been so severe if we had gone off the gold standard long before we did.

When one considers the billions and billions of dollars worth of bonds that are payable in gold, and then contrasts this astounding total with the actual monetary supply of gold in existence, one begins to wonder how we can ever continue to do business on the old gold standard basis.

When money is on a gold basis, it is a standard of purchasing power for the commodity called gold and gold only. The value of gold like that of any other commodity is affected by changes in supply and demand. Both the supply of gold and the demand for gold not only may change from period to period, but are certain to change.

Therefore, especially in recent depressions, the

1. Burton, Theodore E., FINANCIAL CRISES, 1926, P.305.

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gold standard has been a major contributing cause.

Turning too much Circulating Capital into Fixed Capital

The fact that business men turned too much circulating capital into fixed capital is one of the chief causes of the mysterious industrial depressions which come in the absence of any apparent cause. When a business man goes to the bank to negotiate a loan and is successful, he is making use of circulating capital, or as some term it, working capital. This working capital may be used to carry inventories or perhaps to carry accounts or notes receivable during the peak period of business demand. This is a legitimate use of circulating capital.

On the other hand, when the same business man goes to the bank and borrows circulating capital to use for the construction of a new factory building or perhaps for the purchase of new equipment, he is using this money for capital purposes and therefore it may take years for this same circulating capital to get back into use. In other words, he must pay back this loan from profits he makes from the increased efficiency of the new factory building or of the new equipment, and of course considerable amount of time is involved.

This tying up of circulating capital in the form of new buildings and new equipment robs business of much needed credit. Other customers of the bank can borrow just so much less on this account and therefore they cannot produce as much or carry such a large inventory. These conditions with-

out doubt decrease and unsettle business conditions and while not a primary cause of depression, must be given a great deal of consideration.

High and Low Tariff

Tariffs are determined largely by political influence brought about by interested parties. ¹"A tariff in itself is not intrinsically good or bad. It is a tool, not the finished product. Used intelligently, in its proper place, it is an instrument which will bring about certain desired results. But it is not a result in itself. The condition desired is a properly balanced world trade. Tariffs affect world trade and, if skillfully employed, insure a proper balance."

It goes without question that the lowering of tariffs has a tendency to deflate prices and increase imports of cheap goods. This would lower living costs materially and in turn reduce wages, salaries, and other production costs for all commodities of domestic origin.

High tariffs have a tendency to increase the price level, and at times to such an extent as to decrease the demand for certain commodities. This decrease, of course, is also bad for business. The inflation of domestic prices promptly is reflected in an increase in the cost of living and in all production costs. When domestic prices rise and world prices remain stationary, it becomes more and more profitable to import less, and less so to export. Sooner or later prices must be deflated by reducing tariffs, or they must be further stim-

1. Lee, Alva, AMERICA SWINGS TO HER LEFT, 1933, P.57.

ulated by additional tariff increases. Of course this persistent policy of increasing tariff rates finally reaches the point when it fails to stimulate business, and leads to business readjustment, and may with other related problems lead to a severe business depression.

Immigration

One of the worst evils of immigration is the bringing into the country of a vast supply of cheap labor. Although this labor is more or less inefficient, yet the price paid for it is so far below that paid to American workmen that a considerable profit is realized.

Immigrants are not accustomed to our so-called high standard of living and they spend very little for the ordinary necessities of life and very seldom if ever make purchases in the luxury class. This condition has two adverse effects; it throws the American workman out of employment; and secondly, it decreases the price level owing to a slackening in demand for goods.

This cause is fundamentally a theoretical one, because in the early history of our country the influx of immigration did much in aiding our rapid development, and furthermore, in the last few years immigration has been very greatly restricted.

Foreign Factors

Unsettled conditions in foreign countries have done much to unstabilize American industry and finance. Perhaps the

crowning example of this may be found in the recently passed world wide depression. The United States by the middle of 1931 had suffered what was thought to be a great depression, and at that time business conditions were beginning to stabilize. In fact, slight increases in the fundamental business indices were beginning to appear, when suddenly European conditions became critical. Many European countries were practically on the verge of sudden bankruptcy, business was plunged into the depths of depression, and financial conditions were deplorable.

The already returning confidence which was becoming rather noticeable in this country was immediately reversed and once again we started our downward trend. This country with our vast production facilities cannot exist without a reasonable amount of foreign trade, and of course this foreign trade, just at the time it was needed, was not available.

One other similar situation is that of our foreign private debts, and also the much discussed war debts. The inability of foreign countries to meet these payments, let alone the interest due on them, has caused a great deal of uneasiness. It has also robbed this country of a considerable amount of working capital due to the original transfer of this money across the water. Foreign factors may therefore be considered one of the major causes.

Weather and Business Cycles

Agricultural prices have a great deal to do with business conditions, and as such may cause unsettled conditions.

¹ "Such a clue to the general course of regular economic changes in the United States and to the causes in which they originate is given by the rhythmic changes in the weather."

² "As the most fundamental need of mankind is the need for food, it seems probable that the observed rhythmical economic changes may be produced by the physical cause through its effect upon the food supply. If this be so, then, as the fluctuations of the food supply are known to be subject to the supposed caprices of the weather, it seems not unlikely that the physical cause may be one or more of the elemental forces that are summarized under the term weather. The variation in the quantity of the rainfall is one of the weather changes known to have a marked effect upon the yield of the crops, and if this fact is taken into consideration with the preceding reasoning, we have a working theory as to the cause of Economic Cycles: The changes in the weather represented by the changes in the quantity of rainfall cause the changes in the yield per acre of the crops, and the variations in the yield of the crops cause the economic changes known as Economic Cycles."

Therefore, it may be said that a recheck of the major depressions of the past prove that agricultural conditions have had a great deal to do with their severity, and of course weather conditions are a direct contributing cause.

1. Moore, Henry Ludwell, GENERATING ECONOMIC CYCLES, 1923, P.1.
2. Moore, Henry Ludwell, ECONOMIC CYCLES: THEIR LAW AND CAUSE 1914, P.136.

Political Conditions

Politics have a direct effect upon business. In recent years business men have been more interested in the "banks of the Potomac than in the banks of Wall Street." Legislation that has been passed currently has had much to do directly with business. Governmental regulation of business is becoming very popular; these radical steps might work, and they might not. Whether the government will directly control business, or merely act as a silent partner, depends largely upon what political influence carries the most weight. In the past, depressions have been accelerated by the results of presidential elections, the passage of unpopular legislation, and the threat by politicians to pass laws of a detrimental nature.

The silver campaign back in 1893 and 1894 had much to do with that depression, and of course this trouble was due to a political nature. Politicians are generally not good business men, and therefore, they cause unsettled conditions. The adjournment of Congress is usually a sign that business conditions over the near term will improve. At the present time one depressing factor which of course is of a political nature is the New Securities Act. The purpose of this Act, namely, to divert money from "Wall Street" to "Main Street" is excellent, but the execution of it has caused a serious curtailment of business enterprise. Under the Act, it is impossible for business to obtain money in

the capital market for extensive improvements, let alone obtain money for refunding purposes.

Therefore, political conditions and the laws that are passed as a result of their influence have been the means of either starting or accelerating business depressions.

Effects of Business Depressions

Business depressions alter in many respects our ways and means of doing business. Each subsequent depression results in the discovery of new business principles, new methods of financing, more efficient production measures, and many new economic theories and problems.

FINANCIAL CHANGES

Perhaps the greatest change brought about along financial lines is that of new financing. Under the great speculative enthusiasm of the preceding period of prosperity, when large corporations needed money, the most popular way of obtaining these funds was through an issue of, or increasing of the common stock. The investing public seemed to take up these issues of common stock with a great deal of enthusiasm. However, since the great depression, we have changed our point of view, and now, when a corporation needs money, the public demands first mortgage bonds,--that is, all things being equal, without considering the New Securities Act, or the possibility of inflation. This new financing, furthermore, must be of a more restrictive nature, and thoroughly eliminated of all water.

In order to enable business concerns to weather the storm and emerge into the recovery period, banks become more lenient with overdue loans and grant a further extension of credit at even a decrease in the rate of interest. Banks also are willing to grant new loans, but on a more conservative basis, and upon more elaborate investigation than they had thought was necessary during the prosperous times.

Changes are also made in the refunding of securities. If a company has a good business rating, it may call in some of its bonds and issue new bonds at a lower rate of interest. Other corporations that are faced with immediate maturities rather than facing bankruptcy, present their problems to their security holders, and arrive at some equitable plan of reorganization, such as so much cash and the balance partially in coupon bonds and the remainder in income bonds.

MANUFACTURING CHANGES

The depression clears the business atmosphere of many inefficient manufacturing organizations, merchandising units, and financial houses. Business at the start of the new recovery period must not compete with cut-throat competition nor distress selling. Orders are given and sales are made without any of the previous disturbing factors.

Production instead of being way ahead of demand has a tendency to lag and orders pile up on the books. Supply at last has been controlled and meets the demand for goods rather than being unbalanced on the supply side of the equation.

Wages have been readjusted downward at various stages

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of the depression and are not at the low point. In fact one sign of recovery is the reinstatement of previous wage reductions in certain industries.

Salaries and wages have also been readjusted along more equitable lines and no one group seems to be bearing the burden more than another. Great numbers of unemployed have also been given consideration. ¹"The distribution of the load is effected by giving partial employment to a larger rather than full employment to a smaller number."

Furthermore the greatest problem in business, namely that of distribution, has been corrected in many respects. ²"The plain fact is that one of the great wastes of business is due to the incredibly inefficient methods of distribution." More complete and definite plans are made, duplications of necessity have been eliminated, and joint and co-operative facilities are made use of.

The changes in various phases of manufacturing as a result of a depression help speed up the recovery period. New products have also been devised and old products have been improved so that the consumer reaps much of the benefit.

Economical Changes

The last depression probably brought forth a larger crop of new economic theories than any other in our entire history. More thought was given to economic planning, new theories of governmental control, currency manipulation, and

1. Graham, Frank D., THE ABOLITION OF UNEMPLOYMENT, 1932, P.82.
2. Filene, Edward A., THE WAY OUT, 1924, P.109.

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such like than ever before. Socialism, Communism, and Facism all seemed to be considered with renewed interest.

The elimination of the cities' slums and the substitution of modern, sanitary, well built model tenements was another proposed idea. Also, the five-day week for all American business has been mentioned many times and has received a measure of polite consideration entirely inconsistent with its merit. Many other ideas are also proposed, such as Technocracy, Nationalism, Redistribution, etc.

Out of every depression a few new worth while theories are developed and finally used in actual business; the others fall by the way side or present themselves in revised form during the course of the next depression. There is no shortcut and no easy way out of the depression period in spite of the many proposed revolutionary theories.

NEW EVILS--EFFECT OF DEPRESSIONS

The great difficulty of corrective measures when used to rid the country of depression is in the new evils they produce. Stimulants are given to certain depressed industries to help them out, and then with this added help these industries start producing to excess.

The use of inflation many times has also caused much trouble. The people from the depths of depression call for currency inflation to help business. They get inflation with the hope that in some mysterious manner it is supposed to increase the wealth of the world and make them so much

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better off. But are they satisfied? No, they demand more.

¹"Did uncontrolled inflation of Germany increase the wealth of Germany? Far from it! It destroyed confidence completely; it destroyed credit completely; it took from the savings of the people their last dollar."

Furthermore, by reason of the large profits that are realized as a result of changes made, a great deal of speculation and fraud is sure to occur, and these all tend to intensify the disturbances of the time.

²"Any proposed method for stabilizing business, then, needs to be looked at in regard to all the following points: (1) Is it aimed in a desirable direction? (2) Is it a self-canceling (i.e., bootstraps) proposition, or are its effects cumulative? (3) How much correct general prophecy does it require? (4) How much of the martyr spirit will it take to stand by the wheel?"

Certain industries through legislation are conceded undue advantages, and are therefore able to make unusually large profits during the recovery period. This results in unfair competition in other similar industries, and therefore the corrective measures work both a benefit and a hardship to business which may not be straightened out until the succeeding period of depression. For example, in a recent depression, the railroads were placed under the control of the Interstate Commerce Commission, and as such, were subject to severe regulation; whereas the trucking and bus transpor-

1. Schweitzer, R. R., **SACRIFICE OR CHAOS?**, 1933, P.36.

2. Coyle, David Cushman, **BUSINESS VS. FINANCE**, 1932, P.14.

tation business, even though doing interstate business, were not hampered by any such regulatory commission. They could cut rates far below those of the railroads and thus through unfair competition, make large profits. As yet, this situation has not been remedied, and may not be, until the next depression.

REMEDIAL

Many past attempts have been made either to control business depressions or to eliminate them altogether. Such efforts have usually been along three different lines, namely, legislative measures, trade associations, and co-operative agreements.

HISTORICAL ATTEMPTS

The more important attempts in history have been of a legislative nature. The Federal Reserve System was given ostensible authority through the operation of the rediscount rate, and through open market operations of purchasing and selling government bonds. This system has proved to be very important legislation and although during the Depression of 1930-33, this legislation was operative, it did not result in preventing the Depression. Other laws and authorities have been given in the form of inflationary measures, stabilization of the price level, banking reform, and security regulation.

Perhaps the most recent legislative attempt was that of the government entering into business as a so-called silent partner. This was done in the form of the National Industrial Recovery Act which placed the more important in-

dustries under codes which had the effect of regulating employment, wages, trade practises, and many other business functions. The threat of this Act was sufficient to start what might be termed a substantial business recovery, and when the law was finally enacted, business continued this upward momentum.

Other quite successful attempts have been made in the form of trade associations. ¹"The growth of the trade association movement clearly indicates that it is an agency which can adjust its program to meet the new and ever varying problems of business." The basis of the trade organization is mutual aid. A large company may be in a position to develop its own laboratories, and other facilities for keeping the business up-to-date and in touch with the market. These improvements, the smaller concern is unable to make, and its only salvation lies in pooling its interests with those of competing companies. Other functions carried on are the operation of a traffic bureau, a legislative bureau, and trade inventions. All of these enable, for example, one branch of industry to operate more efficiently, and thus prevent a more drastic period of decline when the depression gets under way. The trade association has been of great help in rounding off many of the sharp corners encountered in a depression.

Co-operative agreement between industries also has played an important part in many of the historical attempts at fighting business depressions. One example is that of the

1. Lover, John George, and Cornell, William, THE DEVELOPMENT OF AMERICAN INDUSTRIES, 1932, P.885.

"share the work movement", in which industry agreed to employ a greater number of people for a lesser number of hours each week rather than to give full time employment to only a portion of the population. It is also important to mention the co-operation between the Labor Union and the employers. Co-operative agreements between these two factors have also been made and have resulted in preventing further serious difficulties.

Co-operative advertising has also been attempted with pronounced results. Such advertising tends to increase the sales in the specific industry, instructs the public in the more effective use of the product, and in the elimination of certain trade abuses. Co-operation, therefore, has always been of great assistance in helping the country out of severe business difficulties.

FACTORS HELPING TO LESSEN SEVERITY

The possibility of stabilized prosperity is very remote, and therefore, business must content itself with facing future depressions. Under existing conditions, periods of prosperity alternate with periods of profound depression. During the former, the public loses all interest in the necessary adjustments of the social and economic scheme to changing conditions. During the latter period, there is a general tendency to hysterical action which refuses consideration of all rational solutions of important problems.

Since depressions are the inevitable, various methods may be used to lessen their severity. These methods usually

take any one, or all, of the following forms: legislation, co-operative agreements, controlled competition, controlled inflation, supply and demand, taxation, and conservatism. Each one is of no doubt of equal importance, but perhaps more definite results have been obtained by the use of the first method, that of legislation.

The legislative efforts have usually been in the direction of deflating business, as inflation carries the country far above normal, and inflating business, as deflation, carries business way below normal. The Federal Reserve System and its member banks expanding when needed, is also another method. Legislation aimed at providing relief for distressed or ailing industries including the farmers, also lessens the severity of depressions. The regulation of the tariffs, unemployment, unfair competition, and stabilization of currency also lessens business decline.

Co-operative agreement worked out through the aid of trade association does much to stabilize production and distribution. Consolidations of both the vertical and horizontal type of business enterprises often result in an economic way out of business difficulties.

Another factor is that of controlling competition, so as to eliminate unfair trade practises, distress selling, and sales below cost. Such a practice does away with abnormal speculation and over-production with the corresponding offsetting of prices. However, on the other hand, great monopolies with uncontrolled discretion are also certainly dangerous.

¹"The necessity for some method of making legal agreements which can stop senseless competition with its threat to the stability of established industrial groups and its shocking economic wastes is becoming more and more apparent."

Some form of controlled inflation may also be used to eliminate partially the severity of depressions. This factor gives an artificial stimulant to prices and thus promotes better sentiment, starts a demand for goods on account of the threat of higher prices, and finally leads to an increase of employment. This method, however, is likely to prove disastrous if rigid control is not exerted, or if inflationary measures are undertaken too soon. Therefore, it is wise to resort to inflation, only as a final attempt in lessening the severity of depressions. The regulation of supply and demand is also an important factor, which will more or less take care of itself, providing these other suggested plans are used.

The form, amount, and burden of taxation plays a very important part in business activity. Business men will stand only a certain tax burden, after which they do not care whether they make a profit or even stay in business. Therefore when business starts a downward trend, a lessening of the tax burden would be of great assistance in limiting the severity. Taxation laws should be flexible, so that any sudden change in any particular industry would also change the amount of taxes to be paid by that industry. For example, one reason for the backward condition of the utilities at the present

1. Donham, Wallace Brett, BUSINESS ADRIFT, 1931, P.144.

time, when other industries seem to be forging ahead into recovery, is the tremendous tax burden they must bear. A relief from this extraordinary burden would immediately help the utilities, and have an accumulative effect for the better on all business.

Human nature always tends to be speculative, and seems to lack conservatism. When depression first sets in, immediate conservatism should be the vogue. This would mean no further expansion of credit, restriction of overproduction, the setting up by corporations of ample reserves, and the payment of a majority of the debts. ¹"Increasing the nation's debt, the issuing of fiat money, the building of non-productive public works, the discharge of public and other employees, etc., are merely temporary palliatives--even if economically sound. Prosperity returns only as more people are put back to work. Hence, when the deflation has gone far enough, systematic steps should be taken to quota back into industry the unemployed." Conservatism instead of speculation should be the watchword.

NEGATIVE FACTORS

Many difficulties are encountered in attempts to lessen the severity of depressions. These, of course, are all of a negative nature, and tend to aggravate instead of stabilize conditions. For the most part, they may be summarized as follows: over-production, expansion of credit, Federal Reserve System, Security Exchanges, Social trends, hoarders, tax-

1. Babson, Roger W., FIGHTING BUSINESS DEPRESSIONS, 1932, P.245.

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ation, speculation, and legislation.

The desire for increased profits always seems to lead to over-production. This causes excessive inventories, followed by price declines and subsequent distress selling.

Expansion of credit just at a time when there should be a contraction of credit is another disturbing item. Business men, when business first starts to decline, think that by putting more money into their business, and thus enlarging it, they will not be affected so severely. Therefore, it is this unwarranted expansion of credit that adds to the difficulties of business at such times.

The Federal Reserve System was formed as a result of the Panic of 1907, and although its various methods have done much to improve business, yet in many crucial places it has failed to operate successfully. It was supposed to have made bank suspensions practically impossible--witness the 3600 failures in 1930-31. Its legal reserves were created for periods of possible liquidation, but they have been used as a support for a large expansion in currency and credit. Thus, the Reserve System has been a somewhat negative factor.

Speculation on the Security Exchanges has done much to unsettle business in times past. The legitimate use of the stock market is for the purpose of the investment of the surplus funds of individuals, and not as a trading medium for speculators. Speculators take out of the money market funds which should be used for legitimate business. Another detrimental item is that of margin trading. This probably caused

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mental item is that of margin trading. This probably caused

more grief than any one factor, and it also causes distress liquidation, which unsettles the whole security market. Business men would not suffer so great a depression if they would devote their entire time to their own business rather than so much time to stock market speculation.

Social trends must also be considered at times as a negative factor. ¹"Anything which affects the emotions of men must necessarily affect their ability to make decisions, anticipate decisions, or postpone decisions. If these times of postponed decisions or accelerated judgments or stimulated efforts are not isolated, but, on the contrary, run in wave-like movements, we think that there may be something to the suggestion that varying birth-rates and fluctuating death-rates can and do affect business cycles."

There are two general types of hoarding, namely, that by the banks and that by individuals. The banks hoard when they refuse to grant credit for legitimate business purposes. The public at large have hoarded by the use of actual currency which naturally decreases the purchasing ability and the amount of possible credit since our credit system is based on currency. Hoarding, therefore, causes business decline.

Heavy income taxes on individuals reduce their purchasing power greatly during times of depression just when a decrease in purchasing power has such a great effect on business. Furthermore, on account of high taxes, investors buy tax-exempt bonds instead of railroad, public utility, or indus-

1. Hexter, Maurice Beck, SOCIAL CONSEQUENCES OF BUSINESS CYCLES, 1925, P.174.

trial bonds, thus robbing business of much needed new financing. Burdensome taxation must be considered as one of the more important of the negative factors.

Speculation in commodities tends either to boost artificially the price level, or to deflate prices artificially. The result is a bad effect on legitimate business, resulting in manufacturers having to pay either unreasonably high prices, or bargain prices for their raw material. In times of business strain, this speculation does much to offset any stabilizing influences.

Legislation may not always be of the helpful variety. Two examples are worthy of mention in passing, namely, the law creating the Interstate Commerce Commission, and legislation giving us the New Securities Act.

The Interstate Commerce Commission has placed undue restrictions especially on the railroads. The New Securities Act has caused a stagnation of new financing, thus slowing up the process of business recovery.

The entrance into production of the equipment industries also may cause difficulty especially if they start at the wrong time. It is important that production of consumers' goods is at a rather rapid rate before the heavy industries go into production, or else an immediate overproduction of heavy equipment will result; and with the large amount of capital and bank loans necessary for the heavy industries, this would have the tendency to aggravate conditions at a precarious time.

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The anticipation of possible control of depressions has the tendency to create new disturbing effects. If the public begin to realize that future depressions will not be so severe, and the likelihood of their suffering in the future large losses is mostly eliminated, they will not put so much money into life insurance. The adverse effect on this very important business and its cumulative effect on general business goes without further comment.

Also, since the public would naturally expect a higher standard of living from this possible control of depressions, and also a higher rate of income, there will follow an increase in the birth rate. This steady increase, in time, may eventually cause an increase in unemployment, another disturbing factor.

There might also result a decrease in human efficiency, the elimination of hedging, and an increase in property ownership, which are all factors that change business conditions and business trends.

CONCLUSIONS

Without question past history has taught us that we still face future business depressions. Whether these depressions are international or national, whether financial or mercantile, whether a panic or just a minor disturbance, depends upon how we benefit by past experience.

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ity has been greater than any previous one. But, the law of action and reaction always seems to work. The higher we go, eventually, the lower we must go. Therefore, only as we prevent or control future excesses will we be relieved of subsequent panics and disasters. As we are now recovering from the greatest depression in history, we must look to the future rather than to the past.

It is not the purpose of this thesis to propound some definite plan of eliminating depressions, but to point out in our present economic and business system some of the weaknesses which may be corrected with little effort.

In the first place we are possessed with an overabundance of debt. Statistics show clearly that the country as set up today cannot stand the present increase in debt as it is now accumulating under compound interest at its present rate. Of course there are different methods of attacking this debt problem: the laissez-faire method through reorganizations and bankruptcies, which incidentally the public will not put up with much longer; a rigid requirement providing for the operation of a sinking fund so that a certain amount of debt will be retired each year from profits; retirement of fixed interest debt and the refunding thru stock issues, depending of course upon market conditions. Finally, this tremendous debt total could be reduced by inflation or by cheapening the money of the country. This has the advantage of being painless in the final stages. The sinking fund method is by far the most practical, reasonable, and conservative.

It has been greater than any previous one. But, the law of action and reaction always seems to work. The higher we go, eventually, the lower we must go. Therefore, only as we are vent or control future excesses will we be relieved of subsequent panics and disasters. As we are now recovering from the greatest depression in history, we must look to the future rather than to the past.

It is not the purpose of this thesis to propose some definite plan of eliminating depressions, but to point out in our present economic and business system some of the weaknesses which may be corrected with little effort.

In the first place we are possessed with an overabundance of debt. Statistics show clearly that the country as set up today cannot stand the present interest in debt as it is now accumulating under compound interest at its present rate. Of course there are different methods of attacking this debt problem; the income-tax method through reorganizations and bankruptcies, which incidentally the public will not put up with much longer; a rigid requirement providing for the amortization of a sinking fund so that a certain amount of debt will be retired each year from profits; retirement of fixed interest debt and the refunding then stock issues, depending of course upon market conditions. Finally, this tremendous debt total could be reduced by inflation or by cheapening the money of the country. This has the advantage of being painless in the final stages. The sinking fund method is by far the most practical, reasonable, and conservative.

In the second place we need a stabilized world currency. Fiat money is entirely unnecessary in attacking depressions, as well as stimulated inflation. Inflation of the natural variety will come in time, anyway, and does not need to be forced-witness every one of our past depressions. With a stabilized system, world trade can be carried on without fear of sudden loss due to exchange rates fluctuating severely. World trade is essential to good business, and any policy of nationalism is doomed only to failure. One nation cannot prosper in the long run unless other nations prosper.

Thirdly, our system of distribution is the most costly on record. Duplication of facilities exists on every hand. We have a gasoline station on almost every block, chain grocery stores four or five to a community, trains, trucks, busses, ships, and airplanes continually rushing to the same points of destination, and town, county, state, and federal governments all covering the same jurisdiction. This cost of distribution is blocking production, increasing the cost of goods, and causing much unemployment. Many claim that proper control of distribution would reduce living costs 50 per cent and increase the volume of sales to the advantage of all.

The fourth is aimed directly at the government. By all means the credit of the government must be protected and maintained. This can only be done by a gradual reduction in the billions of dollars outstanding in bonds, the balancing of the budget immediately, restriction of vast public building programs, and a regime of economy.

The banking system and the protection of the people's savings is the fifth consideration. Confidence in our banks and our banking system is very essential for the good of business. Furthermore, new funds for investment must be protected by reasonable laws so that the public will not suffer severe losses from the issuance and sale of securities.

Sixth, the exploitation of labor-saving machinery must be on a co-operative schedule with the limitation placed upon the hours of employment of labor so as to prevent unemployment. This must be carried even further so as to spread employment over the entire population and also to provide time for education and the cultural side of life. Furthermore, child labor should be abolished and adequate accident and health insurance maintained for all employees.

Finally, a redistribution of wealth is bound to come and with it a greater state of equality for all. The masses will have the buying power to provide in a decent measure for their sustenance the products of their toil.

The development of the above factors will bring a more uniform state of business, and when we are again faced with a depression, conditions can be attacked in such a manner as to reduce the intensity, severity, and duration of business inactivity. The working out of these efforts must of necessity depend upon the human element which even at best is changeable. We need more effective and rationally foresighted leadership culminating in philosophically sound planning. Our aim should be to foster such a degree of steadiness in our business growth

and improvement, and such standards of wisdom and honesty as will reduce the effects of depressions to a minimum.

This one thing is clearly demonstrated, that from whatever cause or causes depressions arise, they have always proved but temporary. It does not take long to forget the tragic experiences which they record, especially when business is reaching new high grounds of prosperity not previously attained.

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